

AUDITOR'S REPORT

(English version for reference only)
Our reference: (2005) YC 5161)

To the shareholders of Guangzhou Pharmaceutical Company Limited

We have audited the Balance Sheet as at December 31, 2004, the Income Statement, the Statement of Profit Distribution, and the Statement of Cash Flows for the year then ended of Guangzhou Pharmaceutical Company Limited ("the Company"), and the Consolidated Balance Sheet of the Company and its subsidiaries ("the Group") as at December 31, 2004, the Group's Consolidated Income Statement, Consolidated Statement of Profit Distribution and Consolidated Statement of Cash Flows for the year then ended. The management of the Company shall be responsible for preparation of the above-mentioned statements. Our responsibility is to express an opinion on these accounting statements based on our audit.

We have planned and conducted our audit in accordance with China's Independent Auditing Standards, to obtain reasonable assurance about whether the accounting statements are free of material misstatement. Our audit includes examining evidences supporting the amounts and disclosures in the accounting statements on a sample test basis, assessing the accounting policies used and the significant accounting estimates made by the management, as well as valuating the overall presentation of the accounting statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforesaid accounting statements present fairly, in all material respects, the financial position of the Company and the Group as at December 31, 2004, and the results of operations and cash flows of the Group and the Company for the year then ended in conformity with the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises promulgated by the State.

Guangdong Yangcheng Certified Public Accountants Co., Ltd.

Guangzhou, China

27 April 2005

**Chinese Certified Public Accountant
Huang Weicheng**

**Chinese Certified Public Accountant
Yi Xusheng**

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

Form 1-1
In RMB Yuan

	Notes	31 December 2004	31 December 2003
ASSETS			
Current assets:			
Cash	VI-1	880,824,597.90	816,439,041.14
Short term investment	VI-2	18,562,000.00	49,499,310.37
Notes receivable	VI-3	185,209,600.23	52,280,755.19
Dividends receivable		—	6,316,510.00
Interest receivable		—	—
Accounts receivable	VI-4	967,659,441.43	878,361,678.85
Other receivable	VI-5	111,782,083.42	130,980,738.37
Advances to suppliers	VI-6	160,243,931.81	120,102,331.41
Subsidy receivable	VI-7	2,224,155.35	10,325,834.50
Inventories	VI-8	1,077,924,756.16	1,067,439,529.10
Prepaid expenses	VI-9	89,835,431.99	91,300,355.06
Long-term debentures investments due within one year		—	—
Other current assets		—	—
Total current Assets		3,494,265,998.29	3,223,046,083.99
Long-term investment			
Long-term equity investment	VI-10	74,610,894.56	74,867,192.97
Long-term debentures investment		—	—
Total long-term investment		74,610,894.56	74,867,192.97
Including: consolidation variance	VI-10	4,175,432.85	2,461,219.14
Including: equity investment differences		4,175,432.85	2,461,219.14
Fixed assets			
Fixed assets-cost	VI-11	1,980,499,364.41	1,505,442,749.56
Less: Accumulated depreciation	VI-11	583,351,522.12	498,586,610.77
Fixed assets-net value		1,397,147,842.29	1,006,856,138.79
Less: Provisions for fixed assets	VI-11	25,352,941.92	25,786,824.47
Net of fixed assets	VI-11	1,371,794,900.37	981,069,314.32
Construction supplies		—	—
Construction work in progress	VI-12	119,645,075.10	305,928,588.83
Disposal of fixed assets		—	—
Total fixed assets		1,491,439,975.47	1,286,997,903.15
Intangible assets & other assets:			
Intangible assets	VI-13	103,345,329.75	93,715,205.21
Long-term prepaid expenses	VI-14	19,215,827.64	28,413,060.66
Other long-term assets		—	—
Total intangible assets & other assets		122,561,157.39	122,128,265.87
Deferred tax			
Deferred tax debits		—	—
TOTAL ASSETS		5,182,878,025.71	4,707,039,445.98

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

Form 1-2
In RMB Yuan

	Notes	31 December 2004	31 December 2003
LIABILITIES & OWNERS' EQUITY			
Current liabilities:			
Short-term loans	VI-15	937,458,830.03	664,230,000.00
Notes payable	VI-16	137,052,834.12	212,533,538.69
Accounts payable	VI-17	848,628,472.16	644,880,577.38
Advance from customers	VI-18	22,901,240.89	34,182,508.08
Accrued payroll	VI-19	50,994,217.94	77,634,473.67
Welfare payable		51,590,272.62	56,334,037.21
Dividends payable	VI-20	26,383.04	11,178.03
Tax payable	VI-21	24,041,244.06	21,605,390.47
Other liabilities	VI-22	2,880,392.94	2,651,595.11
Other payables	VI-23	265,572,457.79	199,619,096.28
Accrued expenses	VI-24	9,231,282.20	4,456,292.55
Estimated liabilities		—	—
Long-term liabilities due within 1 year	VI-25	47,680,000.00	30,000,000.00
Other current liabilities		—	—
Total current liabilities		2,398,057,627.79	1,948,138,687.47
Long-term liabilities:			
Long-term loans	VI-26	109,500,000.00	107,180,000.00
Bonds payable		—	—
Long-term payable	VI-27	5,020,012.56	3,616,783.17
Special payables	VI-28	33,810,171.91	46,893,897.48
Other long-term liabilities		—	5,000,000.00
Total long-term liabilities		148,330,184.47	162,690,680.65
Deferred tax			
Deferred tax credits		—	—
Total liabilities		2,546,387,812.26	2,110,829,368.12
Minority shareholders' equity		196,260,508.34	166,733,695.45
Shareholders' equity:			
Share capital	VI-29	810,900,000.00	810,900,000.00
Capital surplus	VI-30	1,126,381,425.35	1,119,572,202.41
Reserved fund	VI-31	480,442,389.26	416,445,683.07
Including: public welfare fund	VI-31	153,572,065.40	134,458,560.41
Less: unconfirmed investment loss		—	—
Retained earnings	VI-32	22,505,890.50	82,558,496.93
Including: cash dividend planned to allocate	VI-32	20,272,500.00	48,654,000.00
Exchange difference on foreign currency capital		—	—
Total Shareholders' equity		2,440,229,705.11	2,429,476,382.41
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,182,878,025.71	4,707,039,445.98

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

Form 2-1
In RMB Yuan

Item	Notes	2004	2003
I. Sales	VI-33	7,708,313,589.34	6,971,963,246.21
Less: Cost of sales	VI-34	6,312,061,516.70	5,575,381,494.57
Sales tax and levies	VI-35	23,762,977.68	23,867,921.27
II. Profit from prencipal operations		1,372,489,094.96	1,372,713,830.37
Add: Profit from other operations	VI-36	39,007,734.82	43,331,577.75
Less: Operating expenses		533,614,941.06	480,112,918.89
General and administrative expenses		656,588,252.79	617,672,250.86
Financial expenses	VI-37	37,872,578.65	22,200,163.99
III. Operating profit		183,421,057.28	296,060,074.38
Add: Investment income	VI-38	(4,735,840.64)	2,714,764.17
Subsidies income		588,921.00	276,208.28
Non-operating income	VI-39	6,838,595.53	2,616,643.99
Less: Non-operating expenses	VI-40	18,470,362.19	16,894,247.44
IV. Total profit		167,642,370.98	284,773,443.38
Less: Income tax		103,569,528.75	134,425,044.95
Less: Loss and gain of minority shareholders		8,781,241.46	10,552,991.99
V. Net profit		55,291,600.77	139,795,406.44

Supplemental information:

No.	Item	2004	2003
1	Revenue from sale or disposal of department or invested company	(522,942.99)	969,762.78
2	Loss incurred from natural disaster	—	—
3	Total profit increased (decreased) due to accounting policy a alteration	—	—
4	Total profit increased (decreased) due to accounting estimation a alteration	—	—
5	Loss from debts reconstruction	—	—
6	Others	—	—

SUPPLEMENTARY CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

Form 2-2
In RMB Yuan

Profit for the period	2004				2003			
	Return on net assets		Earnings per share		Return on net assets		Earning per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	56.24%	56.42%	1.69	1.69	56.50%	57.65%	1.69	1.69
Profit from operations	7.52%	7.54%	0.23	0.23	12.19%	12.43%	0.37	0.37
Net profit	2.27%	2.27%	0.07	0.07	5.75%	5.87%	0.17	0.17
Net profit after deduction of exceptional items	2.59%	2.63%	0.08	0.08	5.95%	6.06%	0.18	0.18

CONSOLIDATED STATEMENT OF PROFIT DISTRIBUTION

For the year ended 31 December 2004

Form 3
In RMB Yuan

Item	2004	2003
1. Net profit	55,291,600.77	139,795,406.44
Add: Retained earnings brought forward	82,558,496.93	74,594,593.92
Add: Transfer from others	153,385.06	-
2. Profit distributable	138,003,482.76	214,390,000.36
Less: Transfer to statutory surplus reserves	21,697,098.56	32,076,133.21
Less: Transfer to public welfare fund	19,113,504.99	24,892,774.22
Less: Transfer to staff bonus and welfare fund	2,693,501.02	2,507,077.69
Less: Transfer to reserve fund	1,010,062.88	940,154.13
Less: Enterprise expansion fund	1,010,062.88	940,154.13
Less: Profit returned to investment	—	—
3. Profit distributable to shareholders	92,479,252.44	153,033,706.98
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	21,319,361.94	21,821,210.05
Less: Dividend for ordinary shares	48,654,000.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—
4. Retained earnings	22,505,890.50	82,558,496.93

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2004

Form 4-1
In RMB Yuan
2003

Item	Notes	2004	
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of services		8,914,281,463.31	7,949,850,555.19
Refund of tax and levy		18,540,083.82	7,702,554.51
Other cash received relating to operating activities	VI-42	78,958,875.02	76,171,204.49
Subtotal of cash inflows		9,011,780,422.15	8,033,724,314.19
Cash paid for goods or services		7,139,659,628.54	6,463,193,346.47
Cash paid to or on behalf of employees		576,229,016.66	491,208,618.60
Taxes paid		456,071,929.74	439,393,768.03
Other cash paid in relation to operating activities	VI-43	639,277,649.21	646,758,977.06
Subtotal of cash outflows		8,811,238,224.15	8,040,554,710.16
Net cash flows from operating activities		200,542,198.00	(6,830,395.98)
II. Cash flows from investing activities:			
Cash received from sale of investments		46,803,573.16	24,138,436.81
Including: cash received from sales of subsidiaries		6,459,376.03	3,077,200.00
Cash received from investment income		8,402,627.39	4,900,136.83
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,010,598.15	2,777,805.04
Other cash received from investing activities		14,621,805.19	—
Subtotal of cash inflows		70,838,603.89	31,816,378.68
Cash paid to acquire fixed assets, intangible assets and other long-term assets		308,690,297.77	367,176,513.22
Cash paid to acquire investments		16,499,805.39	9,825,000.00
Including: cash paid for purchasing subsidiaries		6,468,713.99	—
Other cash paid in relation to investing activities		1,520,000.00	—
Subtotal of cash outflows		326,710,103.16	377,001,513.22
Net cash flows from investing activities		(255,871,499.27)	(345,185,134.54)
III. Cash flows from financing activities			
Proceeds from acquiring investments		5,014,795.47	7,650,000.00
Including: cash received from minority shareholders equity investment of subsidiaries		5,014,795.47	7,650,000.00
Proceeds from borrowings		936,498,816.40	678,230,000.00
Other proceeds relating to financing activities		401,729,801.27	107,687,857.13
Subtotal of cash inflows		1,343,243,413.14	793,567,857.13
Cash repayments of amounts borrowed		766,678,816.40	521,840,000.00
Cash payments for distribution of dividends, profits or interest expenses		96,121,136.72	90,481,193.50
Including: cash payments for minority shareholders of subsidiaries		10,282,963.03	9,105,010.88
Other cash payments relating to financing activities		360,666,766.39	30,422,628.06
Subtotal of cash outflows		1,223,466,719.51	642,743,821.56
Net cash flows from financing activities		119,776,693.63	150,824,035.57
IV. Effect of foreign exchange rate changes on cash		(61,835.60)	153,235.76
V. Net increase in cash and cash equivalents		64,385,556.76	(201,038,259.19)

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2004

Form 4-2
In RMB Yuan

Supplemental Information Item	2004	2003
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	55,291,600.77	139,795,406.44
Loss & gain of minority shareholders	8,781,241.46	10,552,991.99
Add: Provision for value impairment of assets	31,304,538.30	32,743,975.65
Depreciation of fixed assets	104,725,490.30	88,008,290.55
Amortization of intangible assets	4,077,196.86	3,684,535.13
Amortization of long-term prepaid expenses	14,538,987.42	10,506,483.88
Decrease in prepaid expenses (less: increase)	1,464,923.07	(9,572,735.87)
Increase in accrued expenses (less: decrease)	4,774,989.65	(168,814.27)
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	177,188.37	1,311,332.19
Losses on scrapping of fixed assets	3,324,459.40	3,606,761.89
Financial expenses	37,199,378.70	32,678,736.34
Losses on investments (less: gains)	4,735,840.64	(2,714,764.17)
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	(34,941,011.89)	(218,920,454.79)
Decrease in operating receivables (less: increase)	(83,578,581.34)	(292,781,383.90)
Increase in operating payables (less: decrease)	48,665,956.29	190,126,875.89
Others	—	4,312,367.07
Net cash flows from operating activities	200,542,198.00	(6,830,395.98)
2. Investing and financing activities that do not involve cash receipts or payments:		
Repayment of debts by the transfer of investments	—	
Convertible bonds due within 1 year	—	
Fixed assets obtained by financing lease	—	
3. Net increase in cash and cash equivalents		
Cash at the end of period	880,824,597.90	816,439,041.14
Less: Cash at the beginning of the period	816,439,041.14	1,019,903,178.95
Add: Cash equivalents at the end of the period	—	
Less: Cash equivalents at the beginning of period	—	
Net increase in cash and cash equivalents	64,385,556.76	(203,464,137.81)

Note: there is a difference of 2,425,878.62 between the "Net increase in cash and cash equivalents" in the Consolidated Statement of Cash Flows and that in the supplemental information of last year. The reason is that consolidation scope changes in last year and the subsidiaries included in the closing balance and the beginning balance of cash and cash equivalents in the "supplemental information" are different. Cash and cash equivalents in the consolidated statement of cash flows exclude cash flows of the subsidiaries not included in the consolidation scope at the year-end and that of the subsidiaries whose equity is sold from the equity transfer date to the end of year.

BALANCE SHEET

As at 31 December 2004

Form 5-1
In RMB Yuan

ASSETS	Notes	31 December 2004	31 December 2003
Current assets			
Cash		201,807,672.50	231,542,044.04
Short-term investments		18,562,000.00	49,499,310.37
Notes receivable		—	—
Dividends receivable		—	6,316,510.00
Interest receivable		—	—
Accounts receivable		—	—
Other receivables	VII-1	345,237,748.98	319,285,854.82
Prepayments		—	—
Subsidy receivable		—	—
Inventories		—	—
Prepaid expenses		—	—
Long-term debentures investments		—	—
due within 1 year		—	—
Others		—	—
Total current Assets		565,607,421.48	606,643,719.23
Long-term investments:			
Long-term equity investment	VII-2	1,877,883,028.41	1,853,732,823.78
Long-term investments investment		—	—
Total long-term investment		1,877,883,028.41	1,853,732,823.78
Fixed assets:			
Fixed assets-cost		41,005,158.52	37,407,029.02
Less: Accumulated depreciation		13,438,004.00	10,215,684.50
Fixed assets-net value		27,567,154.52	27,191,344.52
Less: Provision for fixed assets		7,109,752.25	7,109,752.25
Net of fixed assets		20,457,402.27	20,081,592.27
Construction materials		—	—
Construction work in progress		—	—
Disposal of fixed assets		—	—
Total fixed assets		20,457,402.27	20,081,592.27
Intangible assets & other assets:			
Intangible assets		—	—
Long-term deferred expenses		1,492,460.43	1,997,842.14
Other long-term assets		—	—
Total intangible assets & other assets		1,492,460.43	1,997,842.14
Deferred tax			
Deferred tax debits		—	—
TOTAL ASSETS		2,465,440,312.59	2,482,455,977.42

BALANCE SHEET

As at 31 December 2004

	31 December 2004	Form 5-2 In RMB Yuan 31 December 2003
LIABILITIES & OWNERS' EQUITY		
Current liabilities:		
Short-term loans	—	—
Notes payable	—	—
Accounts payable	—	—
Advances from customers	—	—
Accrued payroll	2,430,268.38	2,485,598.66
Welfare payable	3,346,137.21	3,074,976.99
Dividends payable	25,980.20	11,137.00
Tax payable	424,662.76	716,641.71
Other liabilities	21,220.74	13,161.85
Other payables	18,585,121.28	40,995,862.85
Accrued expenses	2,150,000.00	2,000,000.00
Estimated liabilities	—	—
Long-term liabilities due within 1 year	—	—
Other current liabilities	—	—
Total current liabilities	26,983,390.57	49,297,379.06
Long-term liabilities:		
Long-term loan	—	—
Bonds payable	—	—
Long-term payable	—	—
Special payables	—	1,000,000.00
Other long-term liabilities	—	—
Total long-term liabilities	—	1,000,000.00
Deferred tax		
Deferred tax credits	—	—
Total liabilities	26,983,390.57	50,297,379.06
Shareholders' equity:		
Share capital	810,900,000.00	810,900,000.00
Less: investment returned	—	—
Net share capital	810,900,000.00	810,900,000.00
Capital surplus	1,125,595,838.66	1,119,405,462.95
Reserved fund	153,118,167.58	145,803,875.54
Including: public welfare fund	61,614,885.51	59,176,788.16
Retained earnings	348,842,914.78	356,049,259.87
Including: cash dividend planned to allocate	20,272,500.00	48,654,000.00
Total Shareholders' equity	2,438,456,921.02	2,432,158,598.36
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,465,440,311.59	2,482,455,977.42

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

Form 6
In RMB Yuan

Item	Notes	2004	2003
I. Sales		—	—
Less: Cost of sales		—	—
Sales tax and levies		—	—
II. Profit from principal operations		—	—
Add: Profit from other operations		8,408,475.17	4,267,200.40
Less: Operating expenses		—	—
General and administrative expenses		24,568,843.51	31,534,143.01
Financial expenses		(2,129,172.49)	(4,365,400.55)
III. Operating profit		(14,031,195.85)	(22,901,542.06)
Add: Investment income	VII-3	62,978,959.10	166,528,032.74
Subsidies income		—	—
Non-operating income		10,807.00	725.46
Less: Non-operating expenses		196,623.30	110,957.22
IV. Total profit		48,761,946.95	143,516,258.92
Less: Income tax		—	—
V. Net profit		48,761,946.95	143,516,258.92

THE STATEMENT OF PROFIT DISTRIBUTION

For the year ended 31 December 2004

Form 7
In RMB Yuan

Item	2004	2003
1. Net profit	48,761,946.95	143,516,258.92
Add: Retained earnings brought forward	356,049,259.87	282,714,439.79
Add: Transfer from others	—	—
2. Profit distributable	404,811,206.82	426,230,698.71
Less: Transfer to statutory surplus reserves	4,876,194.69	14,351,625.89
Less: Transfer to public welfare fund	2,438,097.35	7,175,812.95
Less: Transfer to staff bonus and welfare fund	—	—
Less: Transfer to reserve fund	—	—
Less: Enterprise expansion fund	—	—
Less: Profit returned to investment	—	—
3. Profit distributable to shareholders	397,496,914.78	404,703,259.87
Less: Dividend for preferred shares	—	—
Less: Transfer to discretionary surplus reserves	—	—
Less: Dividend for ordinary shares	48,654,000.00	48,654,000.00
Less: Dividend for ordinary shares transfer to share capital	—	—
4. Retained earnings	348,842,914.78	356,049,259.87

STATEMENT OF CASH FLOW

For the year ended 31 December 2004

Form 8-1
In RMB Yuan

Item	2004	2003
I. Cash flows from operating activities:		
Cash received from sales of goods or rendering of services	—	—
Refund of tax and levy	—	—
Other cash received relating to operating activities	11,954,078.34	6,267,728.25
Subtotal of cash inflows	11,954,078.34	6,267,728.25
Cash paid for goods or services	—	—
Cash paid to or on behalf of employees	7,416,248.88	10,467,841.34
Taxes paid	504,669.44	233,370.03
Other cash paid in relation to operating activities	10,401,505.41	8,449,750.42
Subtotal of cash outflows	18,322,423.73	19,150,961.79
Net cash flows from operating activities	(6,368,345.39)	(12,883,233.54)
II. Cash flows from investing activities:		
Cash received from sale of investments	40,344,197.13	20,000,000.00
Including: cash received from sales of subsidiaries	—	—
Cash received from investment income	122,319,276.02	109,477,064.46
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	690.00	2,600.00
Other cash received from investing activities	217,655,488.19	225,941,418.07
Subtotal of cash inflows	380,319,651.34	355,421,082.53
Cash paid to acquire fixed assets, intangible assets and other long-term assets	1,554,975.55	1,824,350.35
Cash paid to acquire investments	81,575,713.99	29,775,000.00
Including: cash paid for purchasing subsidiaries	71,575,713.99	—
Other cash paid in relation to investing activities	236,270,697.60	235,496,743.73
Subtotal of cash outflows	319,401,387.14	267,096,094.08
Net cash flows from investing activities	60,918,264.20	88,324,988.45
III. Cash flows from financing activities		
Proceeds from absorbing investments	—	—
Proceeds from borrowings	—	—
Other proceeds relating to financing activities	—	—
Subtotal of cash inflows	—	—
Cash repayments of amounts borrowed	—	—
Cash payments for distribution of dividends, profits or interest expenses	49,222,454.75	48,677,066.35

STATEMENT OF CASH FLOW

For the year ended 31 December 2004

Item	Form 8-2 In RMB Yuan	
	2004	2003
Other cash payments relating to financing activities	35,000,000.00	-
Subtotal of cash outflows	84,222,454.75	48,677,066.35
Net cash flows from financing activities	(84,222,454.75)	(48,677,066.35)
IV. Effect of foreign exchange rate changes on cash	(61,835.60)	153,235.76
V. Net increase in cash and cash equivalents	(29,734,371.54)	26,917,924.32
Supplemental Information		
Item	2004	2003
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	48,761,946.95	143,516,258.92
Add: Provision for value impairment of assets	—	100,408.71
Depreciation of fixed assets	3,334,302.86	3,137,038.85
Amortization of intangible assets	—	—
Amortization of long-term prepaid expenses	759,324.26	1,186,247.13
Decrease in prepaid expenses (less: increase)	—	—
Increase in accrued expenses (less: decrease)	150,000.00	-1,250,000.00
Losses on disposal of fixed assets, intangible assets and other long-term assets (less:gains)	5,742.70	—
Losses on scrapping of fixed assets	26,959.14	43,703.78
Financial expenses	—	153,235.76
Losses on investments (less: gains)	(62,978,959.10)	(166,528,032.74)
Deferred tax credit (less: debit)	—	—
Decrease in inventories (less: increase)	—	—
Decrease in operating receivables (less: increase)	1,800,677.81	5,225,701.10
Increase in operating payables (less: decrease)	1,771,659.99	1,532,204.95
Others	—	—
Net cash flows from operating activities	(6,368,345.39)	(12,883,233.54)
2. Investing and financing activities that do not involve in cash receipts or payments:		
Repayment of debts by the transfer of investments	—	—
Convertible bonds due within 1 year	—	—
Fixed assets obtained by financing lease	—	—
3. Net increase in cash and cash equivalents		
Cash at the end of the period	201,807,672.50	231,542,044.04
Less: Cash at the beginning of the period	231,542,044.04	204,624,119.72
Add: Cash equivalents at the end of the period	—	—
Less: Cash equivalents at the beginning of the period	—	—
Net increase in cash and cash equivalents	(29,734,371.54)	26,917,924.32

Item	Beginning balance	Current increase	Current recovery		Sub-total	Closing balance	
			Reversal due to recovery of assets value	Transfer-out due to other reasons			
1.	Total provision for bad debts	65,482,576.86	11,321,538.82	—	9,028,898.02	9,028,898.02	67,775,217.66
	Including: Accounts receivable	55,547,492.63	5,557,010.67	—	6,648,229.72	6,648,229.72	54,456,273.58
	Other receivables	9,935,084.23	5,764,528.15	—	2,380,668.30	2,380,668.30	13,318,944.08
2.	Total provision for short-term investment	1,706,300.00	1,037,300.00	—	1,553,000.00	1,553,000.00	1,190,600.00
	Including: Stock investment	—	—	—	—	—	—
	Debenture investment	1,677,300.00	522,300.00	—	1,524,000.00	1,524,000.00	675,600.00
	Fund investment	29,000.00	515,000.00	—	29,000.00	29,000.00	515,000.00
3.	Total provision for inventories	859,734.19	25,148,330.66	—	692,545.83	692,545.83	25,315,519.02
	Including: Goods in stock	560,981.41	25,084,392.82	—	692,545.83	692,545.83	24,952,828.40
	Raw materials	298,752.78	—	—	—	—	298,752.78
4.	Total provision for long-term investment	1,782,698.40	12,524.66	181,593.22	—	181,593.22	1,613,629.84
	Including: Long-term equity investment	1,782,698.40	12,524.66	181,593.22	—	181,593.22	1,613,629.84
	Long term debenture investment	—	—	—	—	—	—
5.	Total provision for fixed assets	25,786,824.47	1,554,565.38	275,647.25	1,712,800.68	1,988,447.93	25,352,941.92
	Including: Houses & buildings	18,139,824.50	41,496.35	—	30,664.24	30,664.24	18,150,656.61
	Machinery equipment	7,239,412.42	1,513,069.03	275,647.25	1,460,459.62	1,736,106.87	7,016,374.58
6.	Provision for intangible assets	966,151.46	—	—	—	—	966,151.46
	Including: Patent	—	—	—	—	—	—
	Trademark -	—	—	—	—	—	—
7.	Provision for construction work in progress	80,000.00	50,000.00	—	—	—	130,000.00
8.	Provision for loan by trust	—	—	—	—	—	—
9.	Total	<u>96,664,285.38</u>	<u>39,124,259.52</u>	<u>457,240.47</u>	<u>12,987,244.53</u>	<u>13,444,485.00</u>	<u>122,344,059.90</u>

STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY

(Supplementary Information of Consolidated Balance Sheet)
For the year ended 31 December 2004

In RMB Yuan

Item	Notes	2004	2003
I. Paid-in stock:			
Beginning balance	VI-29	810,900,000.00	810,900,000.00
Increase in the current year	VI-29	—	—
Decrease in the current year	VI-29	—	—
Ending balance	VI-29	810,900,000.00	810,900,000.00
II. Capital surplus:			
Beginning balance	VI-30	1,119,572,202.41	1,114,334,224.64
Increase in the current year	VI-30	8,932,224.94	5,237,977.77
Including: Premium on stock		—	3,564,622.18
Reserve of donated non-cash assets		391,662.19	—
Receipt of cash donation		—	—
Equity investment reserve		215,256.10	—
Transfer-in from government appropriation		3,409,298.05	253,730.00
Foreign currency capital translation difference		—	—
Other capital surplus		4,916,008.60	1,419,625.59
Decrease in the current year	VI-30	2,123,002.00	—
Including: Recovery of losses		—	—
Ending balance	VI-30	1,126,381,425.35	1,119,572,202.41
III. Statutory and discretionary surplus reserves:			
Beginning balance	VI-31	281,987,122.66	226,700,932.78
Increase in the current year	VI-31	45,036,586.26	55,777,651.52
Including: Amount appropriated from net income		45,036,586.26	55,777,651.52
Including: Statutory surplus reserve		22,707,161.44	33,016,287.34
Discretionary surplus reserve		22,329,424.82	22,761,364.18
Transfer-in from statutory public welfare fund		—	—
Decrease in the current year	VI-31	153,385.06	491,461.64
Including: Recovery of losses		—	—
Conversion into stock		—	—
Distribution of cash dividend or profit		—	—
Distribution of stock dividend		—	—
Ending balance	VI-31	326,870,323.86	281,987,122.66
Including: Statutory surplus reserve		216,051,925.08	193,344,763.64

STATEMENT OF CHANGE IN STOCKHOLDERS' EQUITY

(Supplementary Information of Consolidated Balance Sheet)
For the year ended 31 December 2004

In RMB Yuan

Item	Notes	2004	2003
IV. Statutory public welfare fund:			
Beginning balance	VI-31	134,458,560.41	109,728,912.38
Increase in the current year	VI-31	19,113,504.99	24,892,774.22
Including: Amount appropriated from net income		19,113,504.99	24,892,774.22
Decrease in the current year	VI-31	—	163,126.19
Including: Collective welfare expenditures		—	—
Ending balance	VI-31	153,572,065.40	134,458,560.41
V. Undistributed profit:			
Undistributed profit at the beginning of the year	VI-32	82,558,496.93	74,594,593.92
Transferred from others	VI-32	153,385.06	—
Net income (or losses) for the year	VI-32	55,291,600.77	139,795,406.44
Profit distribution for the year	VI-32	115,497,592.26	131,831,503.43
Losses made up by capital surplus		—	—
Undistributed profit/losses at end of the year	VI-32	22,505,890.50	82,558,496.93

Notes to the Accounting Statement

I. BASIC CONDITION OF THE COMPANY

Guangzhou Pharmaceutical Company Limited (the "Company") is a joint stock company with limited liability established initially in this form in the People's Republic of China pursuant to a reorganization of eight Chinese patent medicine manufacturing entities and three pharmaceutical trading entities formerly under the supervision and control of Guangzhou Pharmaceutical Holdings Limited (the "Holding") with the capital injection of the state owned equity relating to the operating assets in accordance with the TGS [1997] 139 article issued by the Economic Structure Reform Committee of the State. The Company obtained an enterprise legal person business license with the official code of 4401011101830 on September 1, 1997.

Pursuant to the document with ref. TGS [1997] 145 issued by the Economic Structure Reform Committee of the State and the ZWF [1997] 56 article issued by the Securities Committee of the State Council, the Company issued 219.9 million H shares of stock listed on the Stock Exchange of Hong Kong Limited in October 1997. Approved by the China Securities Regulatory Committee, the Company issued 78 million A shares on January 10, 2001. The total amount of shares of the Company is RMB810,900,000, including RMB513,000,000 shares owned by the State, representing 63.26% of the total shares, and public shares of RMB297,900,000, representing 36.74% of the total shares.

The Company and its subsidiaries (the "Group") engage in capital management, investment, development, financing, the development and manufacturing of Chinese patent medicine, the manufacturing of biological products, health protection medicines and drinks, and the wholesale, retail and import & export of Chinese patent medicine, western pharmaceutical products and various medical apparatus.

The Group's current structure includes eight Chinese patent medicine manufacturing entities, one chemical materials medicine manufacturing entity, two medical research & development entities and four pharmaceutical trading entities.

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting System

The Group implements the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises and the supplementary stipulations.

2. Accounting Year

Accounting year of the Group coincides with the calendar year, i.e., from January 1 to December 31 on the Gregorian calendar.

3. Bookkeeping Currency

The Group uses Renminbi ("RMB") as its bookkeeping currency.

4. Basis of Recording and Valuation

The Group adopts accrual concept as basis of recording and historical cost as basis of valuation.

Notes to the Accounting Statement

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5. Foreign Currency Translation

Foreign currency transactions during the year are translated into RMB at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rates prevailing at the balance sheet date. Exchange differences arising from these translations are recorded as financial expenses of the current period.

6. Cash Equivalents

Cash equivalents are defined as investments that are short-term, highly liquid, readily convertible to cash of known amount and are subject to a low risk of change in value at the time the Group prepares the statement of cash flows.

7. Accounting for Bad Debts

The Group provides provision for bad debts. The provision will be reversed when bad debts arise.

Certified standards of bad debts recognition:

- A. If the debtor becomes bankrupt or dies, the amount remaining after repayment by liquidation property or legacy, will be the bad debts.
- B. If the debtor does not make repayment for over three years and there is obvious evidence showing that the receivables can not be recalled, the amount remaining will be bad debts upon the approval of the board of directors.

According to the accrual standards of provision for bad debts approved by the board of directors, the Group provides provision for bad debts based on the aging of receivable balances. In addition, the Group provides special provision for high-risk receivables based on the financial status and solvency of the debtor.

The provision rates are based on the aging of receivable balances as follows:

Aging	Provision rate
Within 1 year	1%
1~2 years	10%
2~3 years	30%
3~4 years	50%
4~5 years	80%
Over 5 years	100%

The above receivables include accounts receivable and other receivables. The Group provides provision for other receivables after deduction of the balance of related party debtors, unreimbursed business disbursements and other current accounts irrelevant to repayment of accounts.

Notes to the Accounting Statement

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

8. Inventories

Inventories of the Group include finished goods, goods in stock, work-in-process, raw materials, goods in transit, low-valued consumables and packaging materials.

Inventories are valued based on the perpetual account record and cost of acquisition. Consolidated subsidiaries include manufacturing enterprises and commercial enterprises. The respective basis of valuation is as follows:

(1) Manufacturing enterprises:

If raw materials and finished products are stated at planned cost, inventories are recorded at planned cost upon daily receipt and dispatch. At the end of the month, the amount of inventories stated at planned cost will be adjusted for price variances borne by them to arrive at the actual cost; if stated at actual cost, inventories are accounted for on a weighted average basis or first-in-first-out basis.

Low-valued consumables and packaging materials are recorded at actual cost and fully amortized upon issuance for use.

(2) Commercial enterprises:

Inventories of wholesale enterprises are stated at acquisition cost and accounted for on first-in-first-out basis.

Inventories of retail enterprises are stated using the selling price method. The amount is adjusted for price variances to arrive at actual cost at month-end.

Inventories are checked at the period-end. In case the costs are higher than the net realizable values owing to damage, whole or partial obsolescence or lower selling price than cost, the Group will provide provision for inventories for the difference.

9. Short-term Investments

Short-term investments of the Group are recorded at total price on acquisition deducting the cash dividends or interest that have been declared but not received. Cash dividends or interest will be offset against the carrying amount of investments upon receipt. On disposal of an investment, the difference between the sale proceeds received and the carrying amount of the investment will be recognized as an investment income in the current period.

Short-term investments of the Group are measured at the lower of cost and market value. At the period-end, if market value is lower than cost, provision will be made for the difference.

Notes to the Accounting Statement

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

10. Long-term Equity Investments

Long-term equity investments by the Group are stated at the actual cost.

The cost method will be applied if the Group holds less than 20% of the voting capital of the investee, or it holds 20% or more of the voting capital of the investee but does not have significant influence over the investee. The equity method will be applied if the Group holds 20% or more of the voting capital of the investee, or it holds less than 20% of the voting capital of the investee but has significant influence over the investee. The equity method will be applied and consolidated accounting statements will be prepared if the Group holds 50% or more of the voting capital of the investee, or it holds less than 50% of the voting capital of the investee but has significant influence over the investee.

When the equity method is adopted, the Group recognizes investment gain or loss according to its attributable share of the investee's net profit or loss. When the cost method is adopted, profits or cash dividends declared to be distributed by the investee are recognized as investment income in the current period.

Equity investment differences are amortized evenly over the investment period, if any, as stipulated in the investment contract. If the investment period is not specified in the contract, the excess of the investment cost over the investor's share of owner's equity of the investee is amortized over a period not more than 10 years. The shortfall of investment cost over the investor's share of owner's equity of the investee is recorded as capital surplus.

11. Long-term Debt Investments

Long-term debt investments of the Group are stated at actual cost and investment income is accounted for at cost method.

Premium or discount is amortized at a straight-line method when recognizing related interest income over the period between the acquisition date and the maturity date of the debenture.

12. Provision for Impairment of Long-term Investments

Approved by the board of directors, if the carrying amount of a long-term investment is lower than its recoverable amount as a result of continuous decline in market value or deterioration in operating conditions of the investment, and the decline will not be recovered in the foreseeable future, the Group will make the provision for this based on the difference between the recoverable amount and the carrying amount of the long-term investment.

Notes to the Accounting Statement

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

13. Fixed Assets and Depreciation

Fixed assets include houses and buildings, motor vehicles, machinery equipment and tools with useful lives over one year and unit cost more than RMB2, 000. Fixed assets are stated at cost and depreciated over their useful lives at straight-line method, taking into account the estimated residual value of 0% to 10%. The annual rates of depreciation are as follows:

Fixed assets category	Useful lives	Depreciation rate
Houses and buildings	15~50 years	1.80%~6.60%
Machinery equipment	4~18 years	5%~24.75%
Vehicles	5~10 years	9%~19.80%
Electric equipment	5~10 years	9%~19.80%
Office equipment	4~8 years	11.25%~24.75%
Renovation of fixed assets	5 years	20%
Other equipment	4~15 years	6%~24.75%

When depreciation is provided to the assets with provision for impairment, the depreciation rates and amounts are recomputed based on the book value of assets (i.e., original cost less accumulated depreciation and provision for impairment), and the remaining useful lives; in case the value of the fixed assets with provision is recovered, the depreciation rates and amounts will be recomputed at the new book value and the remaining useful life.

In the event that the fixed assets' recoverable amounts are less than the carrying amount due to a continuing decline in market value or obsolesce, damage, long idleness or other economic reasons, the Group will provide provision for the difference.

14. Construction Work in Progress

Project cost of construction work in progress is valued at actual cost, and transferred to fixed assets when the work reaches its expected usable condition.

In the event that the construction work is suspended for a long period and will not restart in the foreseeable future, or is outdated in function or technology, and the economic benefit flowed to the entities is very uncertain, or with other full elements proving that value of the construction work is impaired, provision will be made for the difference between the carrying amount and the lower recoverable amount.

15. Intangible Assets and Amortization

Intangible assets of the Group, which are mainly land use rights and proprietary technologies, are stated at actual cost and amortized evenly over their expected useful lives commencing from the month in which they are acquired.

At the end of the period, the intangible assets are measured at the lower of carrying amount and recoverable amount. If the recoverable amount is lower than the carrying amount, provision will be made for the difference.

Notes to the Accounting Statement

II. PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND METHOD FOR PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16. Long-term Deferred Expenses

Long-term deferred expenses are stated at actual cost and amortized evenly over the anticipated beneficial period.

Organization expenses are recorded in long-term deferred expenses upon occurrence, and fully amortized in the first month of formal operation.

17. Accounting for Borrowing Cost

Borrowing costs relating to operations are taken to financial expenses of the current period.

The borrowing costs incurred in the acquisition of long-term assets such as fixed assets are capitalized before the relevant assets are ready for their intended use and recognized as current financial expenses thereafter.

The capitalization amount of borrowing costs is calculated on the weighted average amount of accumulated expenditures incurred for the acquisition or construction of long-term assets like fixed assets at the period-end timing the capitalization rate.

18. Recognition of Revenue

Revenue from sales of goods is recognized when goods are dispatched, the title to the goods and the major risks and rewards are passed to customers and the Group does not execute the right of supervision and control over the goods, payment or payment evidences are obtained, and the cost of goods sold can be measured reliably.

When the provision of services is started and completed within the same accounting year, revenue should be recognized at the time that the services are completed, the total amount of service revenue and costs can be measured reliably, and the economic benefits associated with the transaction will flow to the enterprise. When the provision of services is started and completed in different accounting years and the outcome of the transaction involving the rendering of services can be estimated reliably, revenue should be recognized at the balance sheet date by the use of the percentage of completion method.

19. Accounting treatment for income tax

The Group accounts for income tax using the tax payable method.

20. Basis of Preparation of Consolidated Financial Statements

The consolidated financial statements are prepared in accordance with ref. [1995] 11 article Temporary Regulation of Consolidation on Financial Statements and CKEZ [1996] 2 article Reply on the Consolidation Scope for the Consolidated Financial Statements issued by the Ministry of Finance. The consolidated financial statements have included all principal subsidiaries under control in the consolidation scope and eliminated sufficiently the business activities between the Company and its subsidiaries or between subsidiaries, based on the individual financial statements of the Company and each subsidiary in the consolidation scope.

Notes to the Accounting Statement

III. TAXATION AND OTHER ADDITIONAL TAXES *(continued)*

The type and rate of tax applicable to the Group is as follows:

1. Circulating tax and other additional taxes

1) Circulating tax

Taxable item	Tax	Rate
Revenue from sale of products	Value-added tax	17%
Revenue from transfer of materials	Value-added tax	17%
Revenue from rendering services	Business tax	5%
Revenue of rental	Business tax	5%
Revenue of capital employed	Business tax	5%
Revenue from sale of wine products	Consumption tax	10%

2) City construction tax

The city construction tax is calculated and paid based on 7% of the total amount of circulating tax. Subsidiaries of the Group that are foreign invested enterprises are exempted from city construction tax in accordance with PRC regulations.

3) Education surcharge

The education surcharge is calculated and paid based on 3% of total circulating tax. Subsidiaries of the Group that are foreign invested enterprises, are exempted from education surcharge in accordance with PRC regulations.

2. Enterprise income tax

The Group calculates and pays enterprise income tax at the rate of 33% in accordance with Temporary Regulation of Enterprise Income Tax in the People's Republic of China.

Pursuant to Enterprise Income Tax Law for Foreign Invested Enterprise in the People's Republic of China, Guangzhou Qixing Pharmaceutical Co., Ltd., a subsidiary of the Group, applies the enterprise income tax rate of 24% and local income tax rate of 3%.

Notes to the Accounting Statement

IV. SUBSIDIARIES AND JOINT VENTURES

(1). Major subsidiaries in the consolidation scope of the consolidated financial statements

Company name	Registered Place	Paid-in share capital/ (RMB'000)	Actual investment of the Group to its subsidiaries (RMB'000)	% of equity interest	Principal Activities
Guangzhou Hanfang Modern Chinese Patent Medicine Research & Development Co., Ltd.	Guangzhou	127,760	93,330	72.96	Research & development of medicine and products of health care
Guangzhou Bio-technology Co., Ltd.	Guangzhou	70,100	66,500	94.87	Research & development of medicine
Guangzhou Huanye Pharmaceutical Co., Ltd.	Guangzhou	6,000	3,580	59.701	Manufacturing chemical material medicine
Guangzhou Xingqun Pharmaceutical Co., Ltd.	Guangzhou	77,170	68,670	88.99	Production of Chinese patent medicine
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	Guangzhou	166,000	161,050	97.016	Production of Chinese patent medicine
Guangzhou Chenliji Pharmaceutical Factory	Guangzhou	94,000	94,000	100	Production of Chinese patent medicine
Guangzhou Qixing Pharmaceutical Factory	Guangzhou	82,420	82,420	100	Production of Chinese patent medicine
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	Guangzhou	86,230	76,230	88.4	Production of Chinese patent medicine
Guangzhou Pangaoshou . Pharmaceutical Co., Ltd	Guangzhou	65,440	57,440	87.77	Production of Chinese patent medicine
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Guangzhou	106,380	98,380	92.48	Production of Chinese patent medicine
Guangzhou Pharmaceuticals Corporation	Guangzhou	222,000	215,330	96.9941	Trading of western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation	Guangzhou	69,700	69,700	100	Trading of Chinese patent medicine and Chinese raw medicine
Guangzhou Pharmaceutical Import & Export Corporation	Guangzhou	15,000	15,000	100	Import and export of medicine
Guangzhou Pharmaceutical Ying Bang Trading Co.Ltd.	Guangzhou	18,410	3,889	51	Trading of Chinese patent medicine and Chinese raw medicine
Guangxi Ying Kang Pharmaceutical Co.Ltd.	Nanning	31,880	21,720	51	Production of Chinese patent medicine

Notes to the Accounting Statement

IV. SUBSIDIARIES AND JOINT VENTURES *(continued)*

- (2). Subsidiaries with over 50% equity interest held by the Group but not included in the consolidation scope are as follows:

The Group holds 72% of equity interest in Shenzhen Qixing Lanzhao Bio-technology Co., Ltd. and 66% of equity interest in Guangzhou Kangshou Pharmaceutical Co., Ltd but does not include them in the consolidation as both of them commenced their liquidation stage in the current year.

The Group holds 51% of equity interest in Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.. As the shares on the total of assets, sales and net profit of this company owned by the Group are under 10% of the total of assets, sales, and net profit of the Group, it is not included in the consolidation in accordance with the document CK2Z(1996)No.2 article Reply to the Quere on Scope of Consolidation and the significance principle of the Group .

- (3) The new subsidiaries of The Group are:

Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd

The Group obtained its 51% of equity interest by the way of transferring on February 27, 2004.

Guangxi Ying Kang Pharmaceutical Co., Ltd.

The Group obtained its 51% of equity interest by increasing capital on April 1, 2004.

The purchasing dates of above acquisition are the dates when the Group obtained the actual control on the net assets and operation of the companies.

V. PROFIT DISTRIBUTION

The profit after tax will be distributed in the following order:

- 1). Making up losses;
- 2). Allocation to statutory surplus reserve fund;
- 3). Allocation to statutory public welfare fund;
- 4). Allocation to discretionary surplus reserve fund;
- 5). Payment of dividends.

The distribution of profit after tax and payment of dividends will be proposed by the board of directors and approved by the shareholders' general meeting. Unless the shareholders come to another agreement, the board of directors is authorized by the shareholders' general meeting to declare and pay interim dividends.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED)

1. Monetary funds

	Closing balance	Beginning balance
Cash on hand	1,192,326.45	1,636,651.51
Cash in bank	859,419,351.72	813,935,035.65
Other monetary funds	20,212,919.73	867,353.98
	<u>880,824,597.90</u>	<u>816,439,041.14</u>

1) Breakdown of cash in bank

	Closing balance	Beginning balance
Current deposit	715,712,994.49	795,273,557.32
Fixed deposit	143,706,357.23	18,661,478.33
	<u>859,419,351.72</u>	<u>813,935,035.65</u>

2) Breakdown of other monetary funds

	Closing balance	Beginning balance
Out-port bank deposit	51,175.67	49,292.78
Credit card deposit	290,109.98	257,790.04
L/C guaranty deposit	4,830,076.94	453,121.55
Bank bill deposit	10,165,833.00	—
Other	4,875,724.14	107,149.61
	<u>20,212,919.73</u>	<u>867,353.98</u>

At the year-end, the Group held current deposit of HKD 2,162,101.05 (equivalent to RMB2,299,826.89) and USD862.81 (equivalent to RMB7,141.05) in Hong Kong.

2. Short-term investments

	Closing balance	Write-down provision	Market price at the year-end
Treasury bond	9,752,600.00	675,600.00	9,077,000.00
Fund	10,000,000.00	515,000.00	9,485,000.00
	<u>19,752,600.00</u>	<u>1,190,600.00</u>	

Note: According to the closing price of the Shanghai Stock Exchange and the Shenzhen Stock Exchange on December 31, 2004, the Group made provision for the amount of which the market price was lower than cost.

The closing balance of short term investment decreases by 62.50% compared with the beginning balance, because part of short term investments was sold by the Company in the current year.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

3. Notes receivable

	Closing balance	Beginning balance
Bank acceptance bill	62,186,822.02	35,611,830.71
Trade acceptance bill	123,022,778.21	16,668,924.48
	<u>185,209,600.23</u>	<u>52,280,755.19</u>

The closing notes receivable increases by 254.26% compared with the beginning balance, mainly because most of major customers of the Group used bills for settlement in the current year.

4. Accounts receivable

1) Aging analysis of accounts receivable

Aging	Closing balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	957,240,209.19	93.65%	9,609,444.44	1.00%
1~2 years	18,333,301.62	1.79%	3,516,319.01	19.18%
2~3 years	16,413,164.55	1.61%	13,273,231.44	80.87%
3~4 years	4,021,203.48	0.39%	2,581,749.92	64.20%
4~5 years	6,774,493.37	0.66%	6,142,185.98	90.67%
Over 5 years	19,333,342.80	1.89%	19,333,342.79	100.00%
	<u>1,022,115,715.01</u>	<u>100.00%</u>	<u>54,456,273.58</u>	<u>5.33%</u>
Aging	Beginning balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	870,056,908.56	93.16%	8,856,680.31	1.02%
1~2 years	22,879,523.01	2.45%	13,419,533.32	58.65%
2~3 years	8,144,462.74	0.87%	3,185,631.44	39.11%
3~4 years	6,774,493.37	0.73%	4,570,482.67	67.47%
4~5 years	7,191,215.04	0.77%	6,652,596.13	92.51%
Over 5 years	18,862,568.76	2.02%	18,862,568.76	100.00%
	<u>933,909,171.48</u>	<u>100.00%</u>	<u>55,547,492.63</u>	<u>5.95%</u>

From the balance aforementioned, no account is due from shareholders with 5% or more voting shares.

- From the closing balance aforementioned, RMB72,156,031.38 is owed by the top five customers with largest balance, representing 7.06% of the total balance.
- The current 473 reversals of accounts receivable amount to RMB6,648,229.72 and all are not involved in related party transactions.
- Accounts receivable aged 2~3 years with a sum of RMB9,638,751.88 is due from Puning Honghai Pharmaceutical Co., Ltd.. As this debtor did not confirm the account, the Group accrued bad debts provision in full amount based on the conservatism principle.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

5. Other receivables

- 1) Aging analysis of other receivables:

Aging	Closing balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	64,888,082.69	51.87%	577,190.29	0.89%
1~2 years	31,298,696.04	25.02%	1,870,367.38	5.98%
2~3 years	5,443,619.75	4.35%	1,867,311.67	34.30%
3~4 years	11,711,184.50	9.36%	284.75	—%
4~5 years	2,040,251.54	1.63%	1,005,659.02	49.29%
Over 5 years	9,719,192.98	7.77%	7,998,130.97	82.29%
	<u>125,101,027.50</u>	<u>100.00%</u>	<u>13,318,944.08</u>	<u>10.65%</u>
Aging	Beginning balance			
	Balance	Percentage	Bad debt provision	Provision Percentage
Within 1 year	93,173,619.62	66.12%	119,286.94	0.13%
1~2 years	6,873,747.02	4.88%	63,544.95	0.92%
2~3 years	13,298,935.52	9.44%	26,706.28	0.20%
3~4 years	8,057,699.86	5.72%	512,939.25	6.37%
4~5 years	2,202,650.53	1.56%	265,780.12	12.07%
Over 5 years	17,309,170.05	12.28%	8,946,826.69	51.69%
	<u>140,915,822.60</u>	<u>100.00%</u>	<u>9,935,084.23</u>	<u>7.05%</u>

- 2) Closing balance of other receivables:

	Closing balance	Beginning balance
Petty cash	2,268,239.88	2,076,005.92
Security money, deposit	4,217,943.36	6,802,582.70
Prepayment for the projects and the equipments	11,786,965.97	17,762,100.48
Advances for operations	19,335,088.32	13,708,930.15
Staff borrowings	245,585.58	882,418.13
Current accounts between related parties	23,923,424.79	20,551,803.91
Others	9,100,614.52	16,303,997.28
Discounts and allowance receivables	22,523,950.71	8,554,968.38
Current account with external company	31,699,214.37	54,273,015.65
	<u>125,101,027.50</u>	<u>140,915,822.60</u>

Among the other receivable accounts, the amount due from shareholder with 5% or more voting shares is that due from the Holding with an amount of RMB6,312,343.14.

- 3) The five largest amounts of other receivables add up to RMB14,532,021.38, accounting for 10.84% of the total.
- 4) The current 8 reversals of other receivables amount to RMB2,380,668.30 and all are not involved in related party transactions.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

6. Advances to suppliers

- (1) Among the closing balance, no advance is prepaid to shareholders with 5% or more voting shares.
- (2) The closing advances to suppliers increases by 33.42% compared with the beginning balance, mainly because the purchase rose to meet the increase of sales in the pharmaceutical trading enterprises of the Group in the current year.

7. Subsidies receivable

	Closing balance	Beginning balance
Export tax refundable	<u>2,224,155.35</u>	<u>10,325,834.50</u>

The closing subsidies receivable decreases by 78.46% compared with the beginning balance, mainly because Guangzhou Pharmaceutical Import & Export Corporation, a subsidiary of the Group received export tax refund of value-added tax amounted to RMB16,984 thousand from tax authority for the year from 2002 to 2004 in the current year.

8. Inventories

	Closing balances		Beginning balance	
	Balance	Provision	Balance	Provision
Goods in transit	1,761,969.43	—	3,697,330.09	—
Raw materials	84,240,197.29	298,752.78	80,703,963.41	298,752.78
Work-in-process	79,290,846.85	—	62,052,049.41	—
Finished goods	95,650,066.82	63,937.84	80,545,553.20	111,066.72
Low-value Consumables	1,715,469.16	—	1,916,496.77	—
Packaging Materials	32,304,739.81	—	32,111,255.96	—
Consigned goods for process	181,754.49	—	600,394.57	—
Goods in stock	808,089,816.93	24,952,828.40	802,786,887.82	449,914.69
Others	5,414.40	—	3,885,332.06	—
	<u>1,103,240,275.18</u>	<u>25,315,519.02</u>	<u>1,068,299,263.29</u>	<u>859,734.19</u>

The closing balance of the provision for inventory write-down increases by 2,844.58% compared with the beginning balance, mainly because Guangzhou Chinese Medicine Corporation, a subsidiary of the Company, made the provision for inventory write-down in amount of RMB24,388,727.50 on the nearly mature or slow moving goods with the selling prices lower than their costs.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

9. Prepaid expenses

	Beginning balance	Addition	Amortization	Closing balance
Insurance premium prepaid	1,816,749.55	2,449,739.04	2,610,697.12	1,655,791.47
Repair and maintenance of fixes assets	—	1,035,564.41	1,035,564.41	—
Road toll	126,433.28	270,018.39	193,337.69	203,113.98
Advertising	6,239,158.00	8,332,780.00	14,505,938.00	66,000.00
Deductible input VAT	82,396,108.92	361,007,423.82	356,015,910.44	87,387,622.30
Others	721,905.31	9,417,715.04	9,616,716.11	522,904.24
	<u>91,300,355.06</u>	<u>382,513,240.70</u>	<u>383,978,163.77</u>	<u>89,835,431.99</u>

10. Long-term equity investment

(1). Details of long-term equity investment are as follows:

Investee	Period	Shareholder percentage	Initial amount of investment
Indonesia Sanyou Industrial Company Limited	2014	50.00%	1,521,562.82
Guangzhou Zhongfu Pharmaceutical Company Limited	N/A	50.00%	400,000.00
Shanghai Jiuhe Tang Chinese Medicine Company Limited	2007	32.37%	615,000.00
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	N/A	44.00%	440,000.00
Guangzhou Jing Xiu Tang 1790 Trading Co., Ltd.	N/A	51.00%	255,000.00
Guangzhou Kangshou Pharmaceutical Co., Ltd.	2006	66.00%	2,460,000.00
Ming Tai Industrial (Thailand) Company Limited	2007	40.00%	516,930.33
East China Pharmaceutical Co., Ltd.	N/A	13.47%	264,000.00
Guangzhou Lianjie Computer Technology Co., Ltd.	N/A	50.00%	250,000.00
Guangzhou Chinese Medicine Corporation Beijing Road Chinese Medicine Bazaar	N/A	20.00%	160,000.00
Golden Eagle Asset Management Co.	N/A	20.00%	20,000,000.00
Jihua Medical Apparatus Company Limited	N/A	24.00%	4,200,000.00
Guangzhou Jinshen Pharmaceutical Co., Ltd.	N/A	38.25%	765,000.00
Everbright Bank	N/A	0.30%	10,725,000.00
Nanhai Nanfang Packaging Co., Ltd.	2011	21.42%	30,000,000.00
Guoyao Group Industrial Co., Ltd.	N/A	10.00%	8,000,000.00
Guangzhou Huayin Bio-technology Co., Ltd.	N/A	15.00%	1,000,000.00
Shenzhen Qixing Lanzao Bio-technology Co., Ltd.	2016	72.00%	3,600,000.00
Qixing Mazhong Pharmaceutical Co., Ltd.	2005	40.00%	362,826.38
Bank of Communications	N/A		393,841.40

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

10. Long-term equity investment (continued)

(2). The movements of long-term equity investment in the current year are as follows

Investee	Closing balance	Current fluctuation under equity method	Accumulated fluctuation under equity method	Provision	Note
Indonesia Sanyou Industrial Company Limited	1,078,551.23	—	(261,418.37)	1,078,551.23	[1]
Guangzhou Zhongfu Pharmaceutical Company Limited	1,448,686.30	20,177.04	1,328,072.95	—	
Shanghai Jiuhe Tang Chinese Medicine Company Limited	615,000.00	—	—	—	
Hangzhou Zhe Da Han Fang Chinese Medicine Co.	268,823.07	(78,239.48)	(171,176.93)	—	
Guangzhou Jing Xiu Tang 1790 Trading Co.	255,000.00	—	—	—	
Guangzhou Kangshou Pharmaceutical Co., Ltd.	1,597,382.80	(222,860.82)	(862,617.20)	—	
Ming Tai Industrial (Thailand) Company Limited	285,375.56	(35,468.34)	(231,554.77)	—	
East China Pharmaceutical Co., Ltd.	264,000.00	—	—	—	
Guangzhou Lianjie Computer Technology Co., Ltd.	188,005.46	(63,161.91)	(63,161.91)	—	
Guangzhou Chinese Medicine Corporation					
Beijing Road Chinese Medicine Bazaar	218,399.05	—	58,399.05	—	
Golden Eagle Asset Management Co.	11,540,543.71	(3,788,079.69)	(8,459,456.29)	—	
Jihua Medical Apparatus Company Limited	2,878,090.39	(293,962.40)	(1,321,909.61)	—	
Guangzhou Jinshen Pharmaceutical Co., Ltd.	394,487.59	(370,512.41)	(370,512.41)	—	
Everbright Bank	10,725,000.00	—	—	—	
Nanhai Nanfang Packaging Co., Ltd.	30,000,000.00	—	—	—	
Guoyao Group Industrial Co., Ltd.	8,000,000.00	—	—	—	
Guangzhou Huayin Bio-technology Co., Ltd.	1,000,000.00	—	—	—	
Shenzhen Qixing Lanzao Bio-technology Co., Ltd.	535,078.61	(335,844.64)	(3,064,921.39)	535,078.61	[2]
Qixing Mazhong Pharmaceutical Co., Ltd.	362,826.38	—	—	—	
Bank of Communications	393,841.40	—	—	—	
Guangzhou Pangaoshou Natural Health Product Co., Ltd. (Consolidation variance)	1,132,975.26	—	—	—	[3]
Guangzhou Huanye Pharmaceutical Co., Ltd. (Consolidation variance)	793,872.95	—	—	—	[4]
Guangzhou Bio-technology Co., Ltd. (Consolidation variance)	244,147.59	—	—	—	[5]
Fujian Guangyao Jieda Co.Ltd. (Consolidation variance)	561,689.58	—	—	—	[6]
Guangxi Ying Kang Pharmaceutical Co., Ltd. (Consolidation variance)	607,000.20	—	—	—	[7]
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. (Consolidation variance)	835,747.27	—	—	—	[8]
	<u>76,224,524.40</u>	<u>(5,167,952.65)</u>	<u>(13,420,256.88)</u>	<u>1,613,629.84</u>	

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

10. Long-term equity investment (continued)

Note 1: The Group hasn't obtain the financial materials of Indonesia Sanyou Industrial Company Limited since the year 1997 and is not aware of the present condition of the investee as a result, provision was made in full amount for this investment on the basis of conservatism principle.

Note 2: Shenzhen Qixing Lanzao Bio-technology Co., Ltd. has suffered significant losses and it is hard to continue to operate, therefore it began liquidation at the end of 2003. The Group made provision for impairment in full amount for the investment.

Note 3: Consolidation variance of Guangzhou Pangaoshou Natural Health Product Co., Ltd. amounts to RMB1,132,975.26, representing the amortized balance of the difference between the payments made by Guangzhou Pangaoshou Pharmaceutical Co., Ltd., the subsidiary of the company for purchase of 32% and 15% of equity interest in Guangzhou Pangaoshou Natural Health Product Co., Ltd. in October 1999 and November 2002 respectively and the attributable share of owners' equity acquired. The initial amount of the equity investment difference is RMB1,990,885.94, which is to be amortized evenly from the next month of acquisition over the investment period as stipulated in the contract. The current amortization is RMB161,853.68 and the accumulated amortization is RMB857,910.68.

Note 4: Consolidation variance of Guangzhou Huanye Pharmaceutical Co., Ltd. amounts to RMB793,872.95, representing the amortized balance of the difference between the total payments for purchase of equity interest and the increment of capital in Guangzhou Huanye Pharmaceutical Co., Ltd. in December 2002 and the share of owners' equity acquired. The difference is amortized evenly from January 2003. The initial amount is RMB992,341.19, current amortization is RMB99,234.12 and the accumulated amortization is RMB198,468.24.

Note 5: Consolidation variance of Guangzhou Bio-technology Co., Ltd. amounts to RMB244,147.59, representing the amortized balance of difference between the Company's payments for increment of capital in June 2002 and November 2003 respectively and the share of owners' equity acquired in Guangzhou Bio-technology Co., Ltd.. The initial amount is RMB291,355.39. The current amortization is RMB29,135.54 and the accumulated amortization is RMB47,207.80.

Note 6: Consolidation variance of Fujian Guangyao Jieda Co. Ltd. is RMB561,689.58, representing the amortized balance of difference between the total payments made by Guangzhou Pharmaceutical Corporation, subsidiary of the Company, for purchase of 50% of equity interest in Fujian Guangyao Jieda Co. Ltd. on July 14, 2004 and the share of owners' equity acquired. The initial amount is RMB586,110.87, current amortization is RMB24,421.29 and the accumulated amortization is RMB24,421.29.

Note 7: Consolidation variance of Guangxi Ying Kang Pharmaceutical Co., Ltd. is RMB607,000.20, representing the amortized balance of difference between the total payments made by the Company on March 31, 2004 for purchase of 51% of equity interest in Guangxi Ying Kang Pharmaceutical Co., Ltd. and the share of owners' equity acquired. The initial amount is RMB656,216.43, current amortization is RMB49,216.23 and the accumulated amortization is RMB49,216.23.

Note 8: Consolidation variance of Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd. is RMB835,747.27, representing the amortized balance of difference between the total payments made by the Company on February 27, 2004 for purchase of 51% of equity interest in Guangzhou Pharmaceutical Yingbang Trading Co. Ltd. and the share of owners' equity acquired. The initial amount is RMB911,724.29, current amortization is RMB75,977.02 and the accumulated amortization is RMB75,977.02.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

11. Fixed assets and accumulated depreciation

Cost	Beginning balance	Addition	Decrease	Closing balance
Houses & buildings	841,687,281.55	213,413,077.11	5,532,701.77	1,049,567,656.89
Machinery equipment	474,145,759.56	254,178,063.61	14,978,186.76	713,345,636.41
Vehicles	91,566,963.10	8,458,034.98	6,574,025.22	93,450,972.86
Electric equipment	25,646,585.28	6,522,206.32	1,640,606.51	30,528,185.09
Office equipment	54,586,961.69	18,793,313.00	2,087,812.10	71,292,462.59
Renovation of fixed assets	17,809,198.38	4,505,252.19	—	22,314,450.57
	<u>1,505,442,749.56</u>	<u>505,869,947.21</u>	<u>30,813,332.36</u>	<u>1,980,499,364.41</u>
Accumulated depreciation	Beginning balance	Addition	Decrease	Closing balance
Houses & buildings	163,377,827.36	36,876,124.90	2,619,054.37	197,634,897.89
Machinery equipment	239,579,345.63	38,944,800.23	8,453,126.36	270,071,019.50
Vehicles	51,875,612.54	13,493,422.66	5,938,207.97	59,430,827.23
Electric equipment	14,098,809.36	3,123,340.70	1,364,928.30	15,857,221.76
Office equipment	26,351,235.94	9,150,233.87	1,585,261.95	33,916,207.86
Renovation of fixed assets	3,303,779.94	3,137,567.94	—	6,441,347.88
	<u>498,586,610.77</u>	<u>104,725,490.30</u>	<u>19,960,578.95</u>	<u>583,351,522.12</u>
Provision for impairment:	Beginning balance	Addition	Decrease	Closing balance
Houses & buildings	18,139,824.50	41,496.35	30,664.24	18,150,656.61
Machinery equipment	7,239,412.42	1,513,069.03	1,736,106.87	7,016,374.58
Vehicles	278,067.41	—	100,668.83	177,398.58
Electric equipment	—	—	—	—
Office equipment	129,520.14	—	121,007.99	8,512.15
Renovation of fixed assets	—	—	—	—
	<u>25,786,824.47</u>	<u>1,554,565.38</u>	<u>1,988,447.93</u>	<u>25,352,941.92</u>

- (1) During the year, construction work in progress transferred to fixed assets amounted to RMB429,539 thousand.
- (2) As at December 31, 2004, the Group has pledged its fixed assets with net book value of RMB130,344 thousand for bank loans.
- (3) At the year-end, the Group provided impairment provision of RMB25,353 thousand for the difference whose recoverable amount were lower than the book value owing to their technology obsolescence, damage or long idleness.
- (4) The closing balance of fixed assets increases by 31.56% compared with the beginning balance, mainly due to the completed projects of construction work in progress being transferred to fixed assets such as relocation of Guangzhou Zhongyi Pharmaceutical Company, Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation and GMP reconstruction projects of the subsidiary companies.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

12. Construction work in progress

(1). Details of construction work in progress are as follows:

Project	Budget	Financing source	% of fund used to budget
Relocation of Guangzhou Xingqun Pharmaceutical Company	243,688,046.72	Working Capital and loan	78%
Xingqun Manufacture Workshop project at phase 3	16,835,778.76	Working Capital	111%
Floor 4 of Granule Manufacture Workshop project at phase 3	11,000,000.00	Working Capital	100%
Warehouse of District B at phase 3	11,000,000.00	Working Capital	100%
Zhong Yi relocation of Yunpu workshop	197,030,000.00	Working Capital, loan and government appropriation	99%
Relocation and expansion of Chenlijji factory	126,000,000.00	Working capital	101%
Chenlijji product technical alteration	29,100,000.00	Working capital and stock capital	85%
Chenlijji product show room	4,000,000.00	Working capital	144%
Hanfang Conghua base construction	118,840,000.00	Stock capital and government appropriation	77%
Hanfang equipment installation project	3,786,349.50	Stock capital and government appropriation	100%
Jingxiutang prepayment for equipment		Working capital and loan	
Jingxiutang suppository production line	12,821,045.48	Working capital and stock capital	100%
Jingxiutang Zhweifengtouguwan production line	11,339,612.77	Working capital and stock capital	99%
Jingxiutang GMP reconstruction project	30,300,000.00	Working capital and loan	28%
Jingxiutang Wanhuayou GMP project	4,196,978.09	Working capital	97%
Jingxiutang sewage treatment pool		Working capital	
Jingxiutang other projects		Working capital	
Pangaoshou GMP reconstruction project	104,910,000.00	Loan and special fund from public debt	85%
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	52,980,000.00	Working capital, stock capital and loan	101%
Caizhiling store in Jiahong Garden of Guangzhou Chinese Medicine Corp.	2,179,473.00	Working capital and stock capital	100%
Chinese medicine GMP reconstruction project of Guangzhou Chinese Medicine Corp.	5,000,000.00	Working capital	71%
Baidi equipment installation	3,000,000.00	Government appropriation	77%
Baidi equipment installation	8,000,000.00	Working capital	109%
Huanye solid preparation workshop project	4,738,900.00	Working capital	56%
Yinkang GMP reconstruction project	23,000,000.00	Working capital	88%
Qixing Warehouse project	6,000,000.00	Working capital	37%
Qixing Xinchuangju office building	16,000,000.00	Working capital	100%

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

12. Construction work in progress (continued)

(2). The movements of construction work in progress in the current period are as follows:

Project	Beginning balance	Addition	Transferred to fixed asset	Other reduction	Closing balance
Relocation of Guangzhou Xingqun Pharmaceutical Company	1,727,686.68	4,352,528.70	5,771,697.63	19,664.60	288,853.15
Xingqun Manufacture Workshop project at phase 3	1,792,452.73	2,286,445.06	—	126,400.00	3,952,497.79
Floor 4 of Granule Manufacture Workshop project at phase 3	6,345,236.85	3,690,000.00	10,035,236.85	—	—
Warehouse of District B at phase 3	8,226,712.57	2,600,000.00	10,826,712.57	—	—
Zhong Yi relocation of Yunpu workshop	74,743,400.45	91,309,458.67	165,216,009.49	—	836,849.63
Relocation and expansion of Chenliji factory	1,336,275.76	148,198.43	931,341.43	553,132.76	—
Chenliji product technical alteration	13,306,720.51	1,392,812.78	13,926,059.65	—	773,473.64
Chenliji product show room	1,923,248.86	3,833,357.41	5,673,045.27	—	83,561.00
Hanfeng Conghua base construction	40,110,014.39	49,636,995.35	—	—	89,747,009.74
Hanfeng equipment installation project	1,253,927.00	—	935,483.00	—	318,444.00
Jingxiutang prepayment for equipment	2,119,798.60	4,769,039.54	4,545,016.93	—	2,343,821.21
Jingxiutang suppository production line	3,952,666.48	63,500.00	2,326,166.48	—	1,690,000.00
Jingxiutang Zhuifengtouguan production line	6,832,257.64	398,833.45	6,583,691.09	—	647,400.00
Jingxiutang GMP reconstruction project	1,727,864.16	—	517,864.16	—	1,210,000.00
Jingxiutang Wanhuayou GMP	2,955,553.43	72,730.00	3,028,283.43	—	—
Jingxiutang sewage treatment pool	558,281.00	—	—	—	558,281.00
Jingxiutang other projects	—	698,861.23	—	—	698,861.23
Pangaoshou GMP reconstruction project	65,603,308.09	22,290,845.79	85,321,237.88	—	2,572,916.00
Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	42,809,559.61	10,623,533.66	53,433,093.27	—	—
Caizhiling store in Jiahong Garden of Guangzhou Chinese Medicine Corp.	2,179,473.00	—	2,179,473.00	—	—
Chinese medicine GMP reconstruction project of Guangzhou Chinese Medicine Corp.	2,947,534.12	614,683.36	2,951,628.41	152,263.52	458,325.55
Baidi equipment installation	1,283,400.00	1,019,700.00	—	—	2,303,100.00
Baidi equipment installation	61,681.00	5,948,712.67	1,682,721.03	—	4,327,672.64
Huanye solid preparation workshop project in development zone	2,340,041.06	163,154.20	1,250,395.06	—	1,252,800.20
Yinkang GMP reconstruction project	—	20,351,486.71	19,705,496.71	—	645,990.00
Qixing warehouse project	—	2,202,351.19	—	—	2,202,351.19
Qixing Xinchuangju office building	16,872,455.01	—	16,872,455.01	—	—
Others	2,999,039.83	15,739,930.92	15,826,387.73	49,715.89	2,862,867.13
	<u>306,008,588.83</u>	<u>244,207,159.12</u>	<u>429,539,496.08</u>	<u>901,176.77</u>	<u>119,775,075.10</u>

The closing balance of construction work in progress decreases by 60.86% compared with the beginning balance, mainly resulting from completed projects of construction work in progress being transferred to fixed assets such as relocation of Guangzhou Zhongyi Pharmaceutical Company, Logistics in Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation and GMP reconstruction projects of the subsidiary companies.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

12. Construction work in progress (continued)

- (3) The closing balance of provision for impairment of construction work in progress is RMB130,000.00 (beginning balance: RMB80,000.00).

the Group made provision for impairment for Jingxiutang Anbike equipment installation in a full amount of RMB50,000 in the current year because the project has been suspended for a long time and may not be resumed in the foreseeable future, together with the provision for Zhong Yi dust removing project in amount of 80,000 made in last year, the total amount of the provision for impairment is RMB130,000.00.

- (4). Capitalized interest expenses included in the construction work in progress are RMB3,746 thousand (beginning balance: RMB63 thousand).

13. Intangible assets

- (1) Details of intangible assets are as follows:

Items	Acquisition method	Cost	Provision for Impairment	Remaining amortization month
Land use right of Nanzhou Road factory	Purchase	4,301,046.00	—	492
Land use right of Renmin Road factory	Purchase	2,686,602.00	—	492
Land use right of No.19-29 of Ningxiheng Street	Purchase	1,618,067.38	—	462
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3 of Zhongshanba Road	Purchase	1,465,822.00	—	187
Land use right of Guangzhou Yunpu Industry District	Purchase	2,255,182.58	—	571
Land use right of No. 194 of Beijing Road	Purchase	2,362,581.08	—	521
Land use right of No. 1688 of Southern Guangzhou Avenue	Purchase	27,006,173.92	—	512
Land use right of Songgang Factory	Purchase	20,417,970.00	—	468
Land use right of Nanhai Huangqi	Purchase	4,090,000.00	—	457
Land use right of Panyu Dongsha Development Distric	Purchase	15,947,019.00	—	492
Land use right of Jiangcun factory in Guangzhou Baiyun District	Purchase	3,463,092.00	—	510
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	Purchase	3,509,041.00	—	391
Land use right of No. 136-138 of He Ping West Road	Purchase	1,535,744.00	—	391
Land use right of No.328 in Beijing Road	Purchase	1,306,988.00	—	90
Land use right of No.103 of Da Tong Road	Land appraisal appreciation	17,928,863.00	—	391
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	Purchase	5,052,929.55	—	53
Land use right of B area of Xin Zhou Warehouse	Purchase	2,676,141.00	480,700.24	491
Land use right of No.85 of Shang Jiu Road	Purchase	2,735,793.33	—	420
Land use right of No.12 of Fangcun Sai Ba Road	Purchase	1,764,522.90	—	509
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	Injection by investor	1,755,288.00	—	528

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

13. Intangible assets (continued)

(1) Details of intangible assets are as follows: (continued)

Items	Acquisition method	Cost	Provision for Impairment	Remaining amortization month
Land use right of No. 5 of Panyu Dongsheng Factory	Purchase	3,078,097.91	—	468
Malotilate emulsion technology	Purchase	1,500,000.00	—	105
Trademark of Guangzhou Pharmaceutical	Injection by investor	3,807,722.31	—	115
Marketing network and trademark of Hubei Ankang Co.	Injection by investor	1,200,000.00	—	111
Others	Purchase	10,156,794.48	485,451.22	5-648
		<u>143,621,481.44</u>	<u>966,151.46</u>	

The closing balance of the provisions for impairment of intangible assets is RMB966,151.46 accrued at the difference of the carrying amount and the lower recoverable amount by the Group (beginning balance: RMB966,151.46).

(2). The movements of intangible assets in the current period are as below:

Project	Beginning balance	Current Addition	Current amortization	Accumulated amortization	Closing balance
Land use right of Nanzhou Road factory	3,786,878.29	—	88,377.66	602,545.37	3,698,500.63
Land use right of Renmin Road factory	2,310,756.19	—	54,828.61	430,674.42	2,255,927.58
Land use right of No.19-29 of Ningxiheng Street	1,374,074.73	—	34,420.37	278,413.02	1,339,654.36
Land use right of No. 32 of Duobao Road Changhua New Street and Shiguili No. 3 of Zhongshanba Road	1,201,796.00	—	68,664.00	332,690.00	1,133,132.00
Land use right of Guangzhou Yunpu Industry District	—	2,255,182.58	46,418.85	46,418.85	2,208,763.73
Land use right of No. 194 of Beijing Road	2,103,897.15	—	47,251.62	305,935.55	2,056,645.53
Land use right of No. 1688 of Southern Guangzhou Avenue	23,585,391.88	—	540,123.48	3,960,905.52	23,045,268.40
Land use right of Songgang Factory	1,775,391.73	—	44,384.76	18,686,963.03	1,731,006.97
Land use right of Nanhai Huangqi	3,229,630.94	—	82,634.52	943,003.58	3,146,996.42
Land use right of Panyu Dongsha Development Distric	13,732,928.00	—	318,940.38	2,533,031.38	13,413,987.62
Land use right of Jiangcun factory in Guangzhou Baiyun District	3,083,094.45	—	70,875.72	450,873.27	3,012,218.73
Land use right of #4-6 and #10-1 of Shi Er Pu New Street	3,185,007.75	—	94,839.00	418,872.25	3,090,168.75
Land use right of No. 136-138 of He Ping West Road	1,393,929.92	—	41,506.56	183,320.64	1,352,423.36

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

13. Intangible assets (continued)

(2). The movements of intangible assets in the current period are as below: (continued)

Project	Beginning balance	Current Addition	Current amortization	Accumulated amortization	Closing balance
Land use right of No.328 in Beijing Road	1,100,048.36	—	32,674.68	239,614.32	1,067,373.68
Land use right of No.103 of Da Tong Road	14,792,137.76	—	495,272.40	3,631,997.64	14,296,865.36
Logistics project software of Huangjinwei warehouse of Guangzhou Pharmaceuticals Corporation	—	5,052,929.55	589,508.43	589,508.43	4,463,421.12
Land use right of B area of Xin Zhou Warehouse	2,265,011.14	—	42,483.60	453,613.46	2,222,527.54
Land use right of No.85 of Shang Jiu Road	2,446,209.66	—	66,076.92	355,660.59	2,380,132.74
Land use right of No.12 of Fangcun Sai Ba Road	1,533,531.43	—	35,290.44	266,281.91	1,498,240.99
Land use right of No.33 of Xin Gang Zhong Road Chi Gang North Street	1,579,759.20	—	35,105.76	210,634.56	1,544,653.44
Land use right of No. 5 of Panyu Dongsheng Factory	2,267,419.10	—	60,781.20	871,460.01	2,206,637.90
Malotilate emulsion technology	1,462,500.00	—	150,000.00	187,500.00	1,312,500.00
Trademark of Guangzhou Pharmaceutical Marketing network and trademark of Hubei Ankang Co.	—	3,807,722.31	158,655.10	158,655.10	3,649,067.21
Others	6,471,962.99	1,391,486.96	788,082.80	3,081,427.33	7,075,367.15
	<u>94,681,356.67</u>	<u>13,707,321.40</u>	<u>4,077,196.86</u>	<u>39,310,000.23</u>	<u>104,311,481.21</u>

14. Long-term prepaid expenses

(1). Details of long-term deferred expense are as follows:

Items	Acquisition method	Cost	Remaining amortization period
Renovation	5 years	34,817,752.76	1 to 5 years
Installation of telephone	5 years	2,756,400.00	2 months
Maintenance expenditure on fixed assets	5 years	7,162,070.45	6 months to 1 year
ERP system	5 years	5,826,766.25	1 to 5 years
Computer system	5 years	1,551,248.00	1 to 5 years
GMP project improvement	5 years	1,956,095.96	6 months
Medical fund for retired staff	5 years	2,414,500.00	1 to 3 years
Transitional medical fund for retired staff	10 years	3,049,676.46	7 to 8 months
Labor insurance premium	5 years	417,623.11	Amortized completely
Others	2-5 years	2,781,958.36	1 to 5 years
		<u>62,734,091.35</u>	

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

14. Long-term prepaid expenses (continued)

(2). The movements of long-term deferred expenses during the current year are as below:

Item	Beginning Balance	Current Addition	Accumulated Amortization	Closing Amortization	Balance
Renovation	19,172,580.45	3,366,247.69	9,970,900.63	22,249,825.25	12,567,927.51
Installation of telephone	105,959.26	—	46,899.96	2,697,340.70	59,059.30
Maintenance expenditure on fixed assets	2,009,940.74	—	1,321,106.34	6,473,236.05	688,834.40
ERP system	1,114,244.94	767,136.00	657,344.08	4,602,729.39	1,224,036.86
Computer system	552,252.56	407,000.00	312,514.99	904,510.43	646,737.57
GMP project improvement	129,510.60	338,402.26	298,711.80	1,786,894.90	169,201.06
Medical fund for retired staff	882,766.93	—	384,991.92	1,916,724.99	497,775.01
Transitional medical fund for retired staff	2,691,012.94	—	349,109.04	707,772.56	2,341,903.90
Labor insurance premium	167,049.37	—	167,049.37	417,623.11	—
Others	1,587,742.87	462,968.45	1,030,359.29	1,761,606.33	1,020,352.03
	<u>28,413,060.66</u>	<u>5,341,754.40</u>	<u>14,538,987.42</u>	<u>43,518,263.71</u>	<u>19,215,827.64</u>

15. Short-term loans

	Closing balance	Beginning balance
Loan by credit	25,000,000.00	50,000,000.00
Loan by mortgage and pledge	255,958,830.03	148,300,000.00
Loan by guaranty	656,500,000.00	465,930,000.00
	<u>937,458,830.03</u>	<u>664,230,000.00</u>

The closing balance of short-term loans increases by 41.13% compared with the beginning balance, mainly because:

- (1) Up to December 31, 2004, subsidiaries of the Group have discounted on their promissory notes and RMB108,659 thousand has been raised in this way.
- (2) Because the sales of Guangzhou Pharmaceuticals Corporation increased greatly in the current year compared with those of last year, leading to an increase of demand for working capital, and the short-term loans increased as a result.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

16. Notes payable

Item	Closing balance	Beginning balance
Bank acceptance bill	118,321,134.12	212,533,538.69
Trade acceptance bill	18,731,700.00	—
	<u>137,052,834.12</u>	<u>212,533,538.69</u>

The closing balance of notes payable decreases by 35.51% compared with the beginning balance, mainly because the pharmaceutical trading enterprises were required to make substantive downpayments and paid in notes for obtaining the sole agent of some medicine in last year, the impact did not exist in the current year as the sole agent has been obtained.

17. Accounts payable

Of the closing balance, no account is due to shareholders with 5% or more shareholding.

The closing balance of accounts payable increases by 31.59% compared with the beginning balance, mainly owing to the increase in purchases of the Group corresponding to the increasing sales.

18. Advances from customers

Within the closing balance, no advance is paid to shareholders with 5% or more shareholding.

19. Accrued Payroll

The closing balance of accrued payroll decreases by 34.31% compared with the beginning balance, mainly because of decrease bonus accrued in the current year.

20. Dividend payable

Name of shareholder	Closing balance	Beginning balance
Minor shareholders	402.84	41.03
Overseas public shares	25,980.20	11,137.00
	<u>26,383.04</u>	<u>11,178.03</u>

21. Taxes payable

	Closing balance	Beginning balance
Business tax	796,463.34	912,882.34
Value added tax	(14,616,004.43)	(27,869,188.13)
City construction tax	924,123.73	948,807.24
Enterprise income tax	34,683,091.24	44,824,745.71
Property tax	329,787.24	273,815.82
Withholding tax	179,472.81	2,318,100.42
Others	1,744,310.13	196,227.07
	<u>24,041,244.06</u>	<u>21,605,390.47</u>

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

22. Other liabilities

	Note	Closing Balance	Beginning Balance
Education surcharge	(1)	414,328.26	410,733.97
Flood prevention levy	(2)	2,460,718.34	2,216,500.01
Others		5,346.34	24,361.13
		<u>2,880,392.94</u>	<u>2,651,595.11</u>

- (1). Education surcharge is paid at 3% of the payable amount of VAT, business tax and consumption tax.
- (2). Flood prevention levy is paid at 0.05% of taxable revenue (on VAT, Business tax, consumption tax and resources tax) for commercial enterprises, 0.09% for foreign invested enterprises, and 0.13% for other enterprises.

23. Other payables

- (1) Break down for closing balance of other payables

Item	Closing balance	Beginning balance
Deposits	18,950,775.59	8,975,189.47
Technology improvement	1,235,485.85	1,236,707.46
Labor union fund	1,102,973.38	1,216,230.20
Staff education fund	10,924,318.13	10,443,909.59
Current accounts to external companies	36,085,243.34	35,358,597.55
Tax addition and government levies	334,210.29	248,990.64
Advance from staff	1,311,990.10	2,894,381.70
Labor insurance	913,448.63	413,811.12
Monetary subsidies of staff housing	10,399,116.96	14,089,890.99
Staff bonus and welfare fund	1,179,049.39	1,964,745.69
Payables to Guangzhou Pharmaceutical Holdings Limited	27,428,199.47	13,813,546.79
Payables to Bank of Communications Guangzhou Branch (Collected on behalf)	122,438,765.67	79,954,738.54
Centralization fund	10,500,071.25	11,937,942.10
Operator incentive fund	2,328,249.35	3,800,000.00
Estimated payment for fixed assets	12,560,604.18	9,883,917.00
Others	7,879,956.21	3,386,497.44
	<u>265,572,457.79</u>	<u>199,619,096.28</u>

- (2) Among the closing other payables, the amount payable to the shareholder who holds 5% or above of the total share is payable to the Holding RMB27,428,199.47.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

23. Other payables (continued)

- (3) The closing balance of other payables increases by 33.04% compared with the beginning balance. The increment is mainly due to the following reasons:
- A). The sales of Guangzhou Pharmaceuticals Corporation, a subsidiary, increased in the current year, and more accounts receivables were transferred to Bank of Communications Guangzhou Branch, the amount collected on behalf but not returned to the bank yet increased as a result.
- B). Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd., a subsidiary of the Group, gained the Holding's support and obtained RMB11,350 thousand of pharmaceuticals research and development fund granted by finance department, leading to the payable to the Holdings.

24. Accrued expenses

Item	Closing balance	Beginning balance
Interest on loan	1,242,290.73	675,992.25
Rental	1,548,786.28	408,735.53
Audit fees	2,150,000.00	2,000,000.00
Advertising expenses	1,802,639.86	911,582.91
Transportation cost	533,009.96	—
Others	1,954,555.37	459,981.86
	9,231,282.20	4,456,292.55

The closing balance of accrued expenses increases by 107.15% compared with the beginning balance, mainly because the accrued advertising expenses, transportation cost and rental went up to meet the increased sales of the Group in the current year.

25. Long-term liabilities due within 1 year

Item	Closing balance	Beginning balance
Loan by credit	20,000,000.00	—
Loan by guaranty	27,680,000.00	30,000,000.00
	47,680,000.00	30,000,000.00

The closing balance of long-term liabilities due within 1 year increases by 58.93% compared with the beginning balance, mainly owing to RMB27,680 thousand of long-term loans of Guangzhou Pharmaceuticals Corporation, a subsidiary, will be due within one year.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

26. Long-term loans

Lender	Period	Annual interest rate	Closing balance	Condition
ICBC Guangzhou No. 1 Sub-branch	2004.01.05~2006.01.04	4.32%	20,000,000.00	Guaranty
ICBC Guangzhou No. 1 Sub-branch	2004.07.08~2006.07.07	4.94%	10,000,000.00	Guaranty
ICBC Guangzhou No. 1 Sub-branch	2004.08.05~2006.08.04	4.94%	20,000,000.00	Guaranty
ICBC Guangzhou Shisanhang Sub-branch	2003.01.06~2006.01.02	5.49%	59,500,000.00	Mortgage
			<u>109,500,000.00</u>	

27. Long-term payables

	Content	Closing balance	Beginning balance
Guangzhou Finance Bureau	State dividends	2,170,889.31	2,732,919.49
Finance Department of Guangxi Chuang Municipality	Payable for transferring equity interest	2,264,426.47	—
Others		584,696.78	883,863.68
		<u>5,020,012.56</u>	<u>3,616,783.17</u>

The closing balance of long-term payables increases by 38.80% compared with the beginning balance, mainly owing to RMB2,264 thousand of payable for transferring equity interest to Finance Department of Guangxi Chuang Municipality of Guangxi Ying Kang Pharmaceutical Co., Ltd. which was merged by the Company in the current year.

28. Special payables

	Closing balance	Beginning balance
Government appropriation as science and technology fund	25,968,096.13	28,402,491.94
Interest subsidies of government	6,556,318.78	16,926,405.54
Special fund for technology export	645,757.00	925,000.00
GMP relocation project-draining project	640,000.00	640,000.00
	<u>33,810,171.91</u>	<u>46,893,897.48</u>

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

29. Share Capital

	Beginning balance	Addition	Reduction	Closing balance
Shares owned by the State	513,000,000.00	—	—	513,000,000.00
Domestic public shares	78,000,000.00	—	—	78,000,000.00
Overseas public shares	219,900,000.00	—	—	219,900,000.00
Total	<u>810,900,000.00</u>	<u>—</u>	<u>—</u>	<u>810,900,000.00</u>

The share capital of the Company has been verified by Guangzhou Yangcheng Certified Public Accountants Co., Ltd. with a capital verification report with ref. (2001) YYZ No. 4526.

30. Capital Surplus

	Beginning balance	Addition	Reduction	Closing balance
Share premium	916,129,772.47	—	2,123,002.00	914,006,770.47
Reserve of donation in form of non-cash assets	1,773,107.29	391,662.19	—	2,164,769.48
Receipt of cash donation	219,652.84	—	—	219,652.84
Reserve of equity investment	—	215,256.10	—	215,256.10
Transfer-ins of appropriations	14,459,816.32	3,409,298.05	—	17,869,114.37
Other capital surpluses	186,615,960.40	4,916,008.60	—	191,531,969.00
Exchange difference on foreign currency capital	373,893.09	—	—	373,893.09
	<u>1,119,572,202.41</u>	<u>8,932,224.94</u>	<u>2,123,002.00</u>	<u>1,126,381,425.35</u>

The current increase of capital surplus amounts to RMB8,932 thousand, mainly consisting of:

- (1) RMB392 thousand of donation in form of non-cash assets;
- (2) RMB215 thousand of the Group's proportion for the capital surplus in the invested enterprises newly increased in the current year;
- (3) RMB3,409 thousand of the fund appropriated by the government for special use converted into capital surplus upon the completion of the research and development project;
- (4) RMB4,916 thousand of payables unable to pay back converted into capital surplus. fund appropriated by the government for special use;

The current decrease of capital surplus represents that the premium arising from the Company's capital increment to Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd. ("Hanfang) in the current year reversed the Company's proportion on other shareholders' investment premium to Hanfang in last year.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

31. Reserved fund

	Beginning balance	Addition	Reduction	Closing balance
Statutory reserve fund	193,344,763.64	22,707,161.44	—	216,051,925.08
Statutory public welfare fund	134,458,560.41	19,113,504.99	—	153,572,065.40
Discretionary reserve fund	83,668,865.95	22,329,424.82	153,385.06	105,844,905.71
Transfer from tax exemption	4,973,493.07	—	—	4,973,493.07
	<u>416,445,683.07</u>	<u>64,150,091.25</u>	<u>153,385.06</u>	<u>480,442,389.26</u>

The addition mainly represents the reserve fund based on the current net profit. According to the resolution of Session 11 of the 3rd meeting of the board of directors, the Company accrued statutory reserve fund and statutory public welfare fund at the rate of 10% of the profit after tax respectively; the manufacturing enterprises subordinate to the Company accrued statutory reserve fund, statutory public welfare fund and discretionary reserve fund at the same rate of 10% of the profit after tax; the commercial enterprises subordinate to the Company accrued statutory reserve fund and statutory public welfare fund at the rate of 10% of the profit after tax and discretionary reserve fund at the rate of 20% of the profit after tax.

The current reduction of reserve fund represents the decrease of the Group's proportion on the discretionary reserve fund in Guangzhou Kangshou Pharmaceutical Co., Ltd., which has gone into liquidation stage and was excluded in the consolidation in the current year.

32. Retained earnings

Please refer to Statement 3 for the details of undistributed profit.

- The profit distribution policy of the Company is stated in Note V.
- In accordance with the dividends allocation plan for the year 2003, the Company allocated RMB0.06 per share, therefore the total dividends allocated for the year 2003 in 2004 summed up to RMB48,654,000.00 at the total share of 810,900,000.

33. Sales

	2004	2003
(1) Manufacturing and selling	1,918,980,048.34	1,889,214,683.01
(2) Trading		
Wholesale	5,339,957,051.24	4,544,133,795.01
Retail	278,829,765.91	354,437,902.37
Import & export sales	170,546,723.85	184,176,865.82
	<u>5,789,333,541.00</u>	<u>5,082,748,563.20</u>
	<u>7,708,313,589.34</u>	<u>6,971,963,246.21</u>

The total sales from the top five customers is RMB511,695 thousand, representing 6.64% of the total net sales.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

34. Cost of sales

	2004	2003
(1) Manufacturing and selling	913,873,690.79	880,274,084.73
(2) Trading		
Wholesale	5,017,472,309.13	4,250,863,145.85
Retail	222,519,682.36	270,293,631.73
Import & export sales	158,195,834.42	173,950,632.26
	<u>5,398,187,825.91</u>	<u>4,695,107,409.84</u>
	<u>6,312,061,516.70</u>	<u>5,575,381,494.57</u>

35. Sales tax and levies

	2004	2003
Business tax	557,779.55	820,395.64
City construction tax	16,157,433.46	16,185,358.55
Education surcharge	6,982,199.89	6,852,172.95
Others	65,564.78	9,994.13
	<u>23,762,977.68</u>	<u>23,867,921.27</u>

36. Profit from other operations

	2004	2003
(1) Income from other operations		
Lease of Assets	35,179,740.42	33,362,108.14
Sales of material	2,426,392.37	4,198,632.65
Storage and meeting income	—	3,706,150.13
Import and export agency charge	808,543.96	318,018.27
Income of member stores	504,770.00	633,927.34
Products promotion income	1,270,174.85	2,386,347.53
Consultancy income	6,025,372.16	6,593,540.01
Others	2,624,618.40	1,297,774.61
	<u>48,839,612.16</u>	<u>52,496,498.68</u>
(2) Cost of other operations		
Lease of Assets	522,621.82	4,338,101.44
Sales of material	2,209,781.58	3,147,317.56
Tax and sur-tax	6,370,121.98	1,106,800.99
Others	729,351.96	572,700.94
	<u>9,831,877.34</u>	<u>9,164,920.93</u>
Profit from other operations	<u>39,007,734.82</u>	<u>43,331,577.75</u>

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

37. Financial expenses

	2004	2003
Net interest expense	28,489,449.02	20,236,580.46
Exchange loss or gain	120,280.90	266,959.39
Financial institution charges	9,767,289.44	1,623,259.20
Others	-504,440.71	73,364.94
	<u>37,872,578.65</u>	<u>22,200,163.99</u>

The current financial expenses increase by 70.60% compared with those of last year, mainly because:

- (1) The short-term loans increased in the current year, the related interest expenses increased as a result.
- (2) The financial institution charges increased owing to more financing from discounting on notes receivable and transferring accounts receivable.

38. Investment income

	2004	2003
Stock investment	759,370.43	294,447.72
Bond investment	(610,416.07)	698,950.74
Fund investment	1,519,857.39	—
Profit from associate enterprises or joint-ventures	588,950.94	4,872,521.97
Net increase or decrease of stock investment under equity method	(5,606,623.16)	(5,410,972.27)
Provision for impairment of investment	(864,037.18)	1,290,053.23
Disposal income of equity investment	(522,942.99)	969,762.78
	<u>(4,735,840.64)</u>	<u>2,714,764.17</u>

The current investment income decreases by 274.45% compared with those of last year, mainly because:

- (1) There was a decrease of RMB4,284 thousand of profit from associate enterprises and joint ventures in the current year.
- (2) The provision for impairment of short-term investment was accrued and the disposal loss of equity investment arose in the current year.

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

39. Non-operating income

Items	2004	2003
Net profit from disposal of fixed assets	319,588.41	384,949.31
Sales of obsolete material	106,612.10	88,308.85
Fine	131,847.34	58,014.50
MTR removal compensation	5,168,043.24	603,472.42
Compensation for dismantling	—	519,520.00
Transfer gain	—	466,555.00
Others	1,112,504.44	495,823.91
	<u>6,838,595.53</u>	<u>2,616,643.99</u>

The current non-operating income increases by 161.35% compared with those of last year, mainly due to an increase of RMB4,565 thousand of income from compensation for dismantling obtained by Guangzhou Chinese Medicine Corporation, a subsidiary of the Group.

40. Non-operating expenses

	2004	2003
Net loss on disposal of fixed assets	3,501,684.15	5,303,043.39
Provision for impairment of fixed assets	1,173,262.40	1,263,270.00
Donation	1,699,748.23	3,814,592.99
Fine	3,460,024.60	153,383.69
Flood prevention levy	—	5,130,331.66
Family control bonus	529,902.76	923,350.13
Penal sum	7,429,418.74	—
Others	676,321.31	306,275.58
	<u>18,470,362.19</u>	<u>16,894,247.44</u>

The Group reclassified flood prevention levy in amount of RMB5,309,516.79 originally recorded in non-operating expenses into general & administration expenses in the current year.

41. Extraordinary gain or loss

Gain or loss from disposal of long-term equity investment	(3,705,038.73)
Government subsidies	588,921.00
Gain or loss from short-term investment	631,511.75
Other non-operating expenses than provision for assets impairment	(7,276,408.52)
Reversal of provision for impairment accrued in previous years	457,240.47
Impact of income tax	983,268.09
Impact of minority interest	442,510.49
	<u>(7,877,995.45)</u>

Notes to the Accounting Statement

VI. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (ALL AMOUNTS ARE STATED IN RMB YUAN UNLESS OTHERWISE STATED) (continued)

42. Other cash received relating to operating activities

Main item	Amount (RMB1,000)
Non-operating income	6,376
Interest income	9,332
Financial special appropriation	13,822
Income from other operations	48,840

43. Cash paid relating to other operating activities

Main item	Amount (RMB1,000)
Operating expenses paid in cash	363,933
General & administration expenses paid in cash	248,027
Non-operating expenses	6,366
Charges of financial institutions	9,767

VII. NOTES TO THE ACCOUNTS OF THE PARENT COMPANY (AMOUNTS ARE IN RMB UNLESS OTHERWISE STATED)

1. Other receivables

(1) Aging analysis of other receivable as at December 31, 2004

Aging	Closing balance			
	Balance	Proportion to the total	Bad debts provision	Accrual Proportion
Within 1 year	139,737,149.34	40.42%	—	—
1~2 years	17,043,976.42	4.93%	—	—
2~3 years	24,238,005.49	7.01%	—	—
3~4 years	82,050,301.97	23.73%	—	—
4~5 years	22,267,515.76	6.44%	—	—
Over 5 years	60,402,843.54	17.47%	502,043.54	0.83
	<u>345,739,792.52</u>	100%	<u>502,043.54</u>	0.15

Notes to the Accounting Statement

VII. NOTES TO THE ACCOUNTS OF THE PARENT COMPANY (AMOUNTS ARE IN RMB UNLESS OTHERWISE STATED) (continued)

1. Other receivables (continued)

(1) Aging analysis of other receivable as at December 31, 2004 (continued)

Aging	Beginning balance			
	Balance	Proportion to the total	Bad debts Provision	Accrual Proportion
Within 1 year	129,998,940.69	41%	—	—%
1~2 years	24,461,984.40	8%	—	—%
2~3 years	82,625,413.97	26%	—	—%
3~4 years	22,298,715.76	7%	—	—%
4~5 years	59,900,000.00	18%	—	—%
Over 5 years	502,843.54	0%	502,043.54	99.84%
	<u>319,787,898.36</u>	100%	<u>502,043.54</u>	0.16%

Within the aforesaid balance, receivables due from shareholders holding 5% or above of the total shares include the receivable from the Holding with an amount of RMB4,896,000.

2. Long-term equity investments

Name of investee	Original investment	Stock proportion to the investee	Accumulated increase (decrease) of the equity	Closing balance
Guangzhou Xingqun Pharmaceutical Co., Ltd.	5,322,18.71	88.99%	51,958,077.38	177,280,396.09
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	156,209,321.79	90.36%	164,436,477.32	320,645,799.11
Guangzhou Chenliji Pharmaceutical Factory	98,465,344.60	100.00%	93,286,121.71	191,751,466.31
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	89,480,000.00	70.04%	(12,085,330.35)	77,394,669.65
Guangzhou Qixing Pharmaceutical Factory	126,775,482.62	100.00%	45,522,049.89	172,297,532.51
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	101,489,814.94	88.40%	(10,034,166.25)	91,455,648.69
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	144,298,132.51	87.77%	10,782,311.68	155,080,444.19
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	102,035,124.44	92.48%	32,443,256.38	134,478,380.82
Guangzhou Pharmaceuticals Corporation	230,189,155.53	90.09%	141,400,178.98	371,589,334.51

Notes to the Accounting Statement

VII. NOTES TO THE ACCOUNTS OF THE PARENT COMPANY (AMOUNTS ARE IN RMB UNLESS OTHERWISE STATED) (continued)

2. Long-term equity investments (continued)

Name of investee	Original investment	Stock proportion to the investee	Accumulated increase (decrease) of the equity	Closing balance
Guangzhou Chinese Medicine Corporation	69,051,978.34	100.00%	(60,057,996.16)	8,993,982.18
Guangzhou Pharmaceutical Import & Export Corporation	17,957,328.73	100.00%	3,336,111.02	21,293,439.75
Guangzhou Bio-Technology Co., Ltd.	66,500,000.00	94.86%	(14,013,319.29)	52,439,472.91
Guangzhou Huanye Pharmaceutical Co., Ltd.	15,331,246.76	59.70%	283.10	15,133,061.62
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	3,888,713.99	51.00%	125,903.86	3,938,640.83
Guangxi Ying Kang Pharmaceutical Co., Ltd.	21,717,000.00	51.00%	(1,095,146.22)	20,572,637.55
Golden Eagle Asset Management Co.	20,000,000.00	20.00%	(8,459,456.29)	11,540,543.71
Jihua Medical Apparatus Company Limited	4,200,000.00	24.00%	(1,321,909.61)	2,878,090.39
Guangzhou Jinshen Pharmaceutical Co., Ltd.	765,000.00	38.25%	(370,512.41)	394,487.59
Everbright Bank	10,725,000.00	0.30%	—	10,725,000.00
Guoyao Group Industry Corporation	8,000,000.00	10%	—	8,000,000.00
Nanhai Nanfang Packing Company Limited	30,000,000.00	21.42%	—	30,000,000.00
Total	<u>1,442,400,962.96</u>		<u>435,852,934.74</u>	<u>1,877,883,028.41</u>

3. Investment income

	2004	2003
Stock investment	759,370.43	281,205.24
Bond investment	(610,416.07)	698,950.74
Fund investment	1,519,857.39	—
Profit from associate enterprises or joint-ventures	181,500.00	4,324,345.00
Net increase or decrease of equity investment under equity method	62,165,947.35	160,534,295.00
Provision for impairment of investment	(1,037,300.00)	689,236.76
	<u>62,978,959.10</u>	<u>166,528,032.74</u>

Notes to the Accounting Statement

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS

(1) Related parties with control relationship

Name	Registered address	Principal business	Relationship with the Company	Economic nature and type	Legal representative
Guangzhou Pharmaceutical Holdings Company Limited	No. 45, Shamian North Street, Guangzhou	Production and sales	Holding	Company with limited liabilities	Yang Rongming
Guangzhou Xingqun Pharmaceutical Co., Ltd.	No. 162, Nanzhou Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Wen Xinmin
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	West Building of 11F, No. 28, Times Square, Tianhe North, Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	Mai Qijie
Guangzhou Chenliji Pharmaceutical Factory	No. 1688, Guangzhou Avenue South, Guangzhou	Production and sales	Subsidiary	Controlled by the State	Li Guoju
Guangzhou Qixing Pharmaceutical Factory	No. 33, Chigang North Street, Xingang Central Road, Guangzhou	Production and sales	Subsidiary	Controlled by the State	Wen Xianwen
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	No. 179, Renmin South Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Huang Haitao
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	No. 618~620, Jiefang North Road, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Wei Dahua
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	Bridge side, Jiang Village, Baiyun District, Guangzhou	Production and sales	Subsidiary	Joint stock company with limited liabilities	Shi Shaobin
Guangzhou Pharmaceuticals Corporation	No.97, Datong Road, Guangzhou	Wholesale and retail	Subsidiary	Company with limited liability	Feng Zansheng
Guangzhou Chinese Medicine Corporation	No. 140, Guangfu South Road, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Zhou Lushan
Guangzhou Pharmaceutical Import & Export Corporation	No. 59, Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	Controlled by the State	Tu Kejin
Guangzhou Huanye Pharmaceutical Co., Ltd.	No. 195, Fangcun Avenue East, Fangcun District, Guangzhou	Production and sales	Subsidiary	Company with limited liabilities	Feng Jinglin
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	No. 134, Jiangnan Avenue Central, Haizhu District, Guangzhou	Wholesale & retail, research & development	Subsidiary	Company with limited liabilities	Zhou Yuejin
Guangzhou Bio-Technology Co., Ltd.	Shiguang Roadside, Xiecun Village, Zhongcun Town, Panyu District, Guangzhou	Wholesale & retail, research & development	Subsidiary	Company with limited liabilities	Zhang Mingsen
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	Back building of 59 Shamian North Street, Guangzhou	Wholesale and retail	Subsidiary	Company with limited liability	He Shuhua
Guangxi Ying Kang Pharmaceutical Co., Ltd.	No. 193, Changgang Road, Nanning, Guangxi	Production and sales	Subsidiary	Company with limited liability	He Shuhua

Notes to the Accounting Statement

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS *(continued)*

(2) Registered capital (paid-in capital) of related parties with control relationship and its change

Monetary unit: RMB'000

Company name	Beginning balance	Addition	Reduction	Balance Closing
Guangzhou Pharmaceutical Holdings Limited	1,007,700	—	—	1,007,700
Guangzhou Xingqun Pharmaceutical Co., Ltd.	77,170	—	—	77,170
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	166,000	—	—	166,000
Guangzhou Chenliji Pharmaceutical Factory	94,000	—	—	94,000
Guangzhou Qixing Pharmaceutical Factory	82,420	—	—	82,420
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	86,230	—	—	86,230
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	65,440	—	—	65,440
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	106,380	—	—	106,380
Guangzhou Pharmaceuticals Corporation	222,000	—	—	222,000
Guangzhou Chinese Medicine Corporation	69,700	—	—	69,700
Guangzhou Pharmaceutical Import & Export Corporation	15,000	—	—	15,000
Guangzhou Huanye Pharmaceutical Co., Ltd.	6,000	—	—	6,000
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	83,280	44,480	—	127,760
Guangzhou Bio-Technology Co., Ltd.	70,100	—	—	70,100
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	18,410	—	—	18,410
Guangxi Ying Kang Pharmaceutical Co., Ltd.	11,250	20,630	—	31,880

(3) Shareholding or equity interest held by related parties with control relationship and its change

Monetary unit: RMB'000

Company name	Beginning balance		Addition		Reduction		Closing balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Guangzhou Pharmaceutical Holdings Company Limited	513,000	63.26	—	—	22,000	2.71	491,000	60.55
Guangzhou Xingqun Pharmaceutical Co., Ltd.	68,670	88.99	—	—	—	—	68,670	88.99
Guangzhou Zhongyi Pharmaceutical Co., Ltd.	150,000	90.36	—	—	—	—	150,000	90.36
Guangzhou Chenliji Pharmaceutical Factory	94,000	100	—	—	—	—	94,000	100
Guangzhou Qixing Pharmaceutical Factory	82,420	100	—	—	—	—	82,420	100
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd.	76,230	88.40	—	—	—	—	76,230	88.40
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	57,440	87.77	—	—	—	—	57,440	87.77
Guangzhou Wanglaoji Pharmaceutical Co., Ltd.	98,380	92.48	—	—	—	—	98,380	92.48

Notes to the Accounting Statement

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS *(continued)*

(3) Shareholding or equity interest held by related parties with control relationship and its change *(continued)*

Monetary unit: RMB'000

Company name	Beginning balance		Addition		Reduction		Closing balance	
	Amount	%	Amount	%	Amount	%	Amount	%
Guangzhou Pharmaceuticals Corporation	200,000	90.09	—	—	—	—	200,000	90.09
Guangzhou Chinese Medicine Corporation	69,700	100	—	—	—	—	69,700	100
Guangzhou Pharmaceutical Import & Export Corporation	15,000	100	—	—	—	—	15,000	100
Guangzhou Huanye Pharmaceutical Co., Ltd.	3,580	59.70	—	—	—	—	3,580	59.70
Guangzhou Hanfang Modern Chinese Patent medicine Research & Development Co., Ltd.	45,000	54.04	44,800	16.00	—	—	89,480	70.04
Guangzhou Bio-Technology Co., Ltd.	66,500	94.87	—	—	—	—	66,500	94.87
Guangzhou Pharmaceutical Ying Bang Trading Co., Ltd.	—	—	9,390	51.00	—	—	9,390	51.00
Guangxi Ying Kang Pharmaceutical Co., Ltd.	—	—	16,260	51.00	—	—	16,260	51.00

(4) Related party transactions

1. Nature of related parties with no control relationship

Name	Relationship with the Company
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Mingxing Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Tianxin Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Hejigong Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou Guanghua Pharmaceutical Company Limited	Fellow subsidiary
Guangzhou Officinal Glass Factory	Fellow subsidiary
Guangzhou Sanitation Pharmaceutical Co., Ltd.	Fellow subsidiary
Guangzhou South-china Medical Appliance Co., Ltd.	Fellow subsidiary
Guangzhou Guangyao Real Estate Industry Co., Ltd.	Fellow subsidiary
Baolian Development Company Limited	Fellow subsidiary
Guangzhou Zhongfu Medical Company Limited	Joint venture
Guangzhou Medical Industry Research Center	Fellow subsidiary
Guangzhou Baiyunshan Chinese Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan Pharmaceutical Factory	Fellow subsidiary
Guangzhou Baiyunshan Chemistry Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan External Use Medicine Factory	Fellow subsidiary
Guangzhou Baiyunshan Enterprise Group Co., Ltd.	Fellow subsidiary
Guangzhou Pharmaceutical Goods and Supply Company	Fellow subsidiary
Guangzhou Pharmaceutical Economic Development Company	Fellow subsidiary

Guangxi Ying Kang Pharmaceutical Co., Ltd. was the related party with no control relationship of the Company in last year, the Company obtained its 51% of equity interest by transferring on February 27, 2004 and included it in the consolidation.

Notes to the Accounting Statement

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS *(continued)*

(4) Related party transactions *(continued)*

2. Purchase of goods

Company name	Monetary unit: RMB'000	
	2004	2003
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	26,595	26,602
Guangzhou Mingxing Pharmaceutical Co., Ltd.	22,484	24,975
Guangzhou Tianxin Pharmaceutical Company Limited	6,769	6,815
Guangzhou Hejigong Pharmaceutical Co., Ltd.	2,439	3,081
Guangzhou Guanghua Pharmaceutical Company Limited	32,568	29,538
Guangzhou Official Glass Factory	—	413
Guangzhou Sanitation Pharmaceutical Co., Ltd.	2,089	4,581
Guangzhou South-china Medical Appliance Co., Ltd.	—	124
Guangzhou Pharmaceutical Economic Development Company	—	15
Baolian Development Company Limited	9,607	6,244
Guangzhou Zhongfu Medical Company Limited	108	—
Guangzhou Baiyunshan Chinese Medicine Factory	1,744	3,601
Guangzhou Baiyunshan Pharmaceutical Factory	155	785
Guangzhou Pharmaceutical Goods and Supply Company	—	19
Guangzhou Baiyunshan Enterprise Group Co., Ltd.	—	109
	104,558	106,902

The above purchases are settled at market prices.

3. Sales of goods

Company name	Monetary unit: RMB'000	
	2004	2003
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	47,021	37,068
Guangzhou Mingxing Pharmaceutical Co., Ltd.	1,626	1,424
Guangzhou Tianxin Pharmaceutical Company Limited	18,537	17,776
Guangzhou Hejigong Pharmaceutical Co., Ltd.	1,154	1,066
Guangzhou Guanghua Pharmaceutical Company Limited	3,692	2,767
Guangzhou Sanitation Pharmaceutical Co., Ltd.	5	1,544
Guangzhou South-china Medical Appliance Co., Ltd.	—	1
Guangzhou Pharmaceutical Economic Development Company	—	152
Guangzhou Zhongfu Medical Company Limited	—	1,459
Guangzhou Medical Industry Research Center	7	62
Guangzhou Baiyunshan Chinese Medicine Factory	1,392	1,352
Guangzhou Baiyunshan Pharmaceutical Factory	7,580	22,756
Guangzhou Baiyunshan Chemistry Medicine Factory	3,132	—
	84,146	87,427

The above sales are settled at market prices.

Notes to the Accounting Statement

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS *(continued)*

(4) Related party transactions *(continued)*

4. Receivables and payables

Company name	<i>Monetary unit: RMB'000</i>	
	Closing balance	Beginning balance
Accounts receivable:		
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	17,232	5,572
Guangzhou Mingxing Pharmaceutical Co., Ltd.	739	288
Guangzhou Tianxin Pharmaceutical Company Limited	5,481	3,140
Guangzhou Hejigong Pharmaceutical Co., Ltd.	432	18
Guangzhou Guanghua Pharmaceutical Company Limited	1,573	434
Guangzhou Sanitation Pharmaceutical Co., Ltd.	—	329
Guangzhou Baiyunshan Chinese Medicine Factory	1,154	852
Guangzhou Baiyunshan Pharmaceutical Factory	1,753	7,766
Guangzhou Baiyunshan Chemistry Medicine Factory	423	—
Guangzhou Zhongfu Medical Company Limited	—	188
Guangzhou Pharmaceutical Economic Development Company	—	26
Accounts payable:		
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	240	987
Guangzhou Mingxing Pharmaceutical Co., Ltd.	274	487
Guangzhou Tianxi Pharmaceutical Company Limited	-87	438
Guangzhou Hejigong Pharmaceutical Co., Ltd.	106	106
Guangzhou Guanghua Pharmaceutical Company Limited	394	782
Guangzhou Sanitation Pharmaceutical Co., Ltd.	70	962
Guangzhou South-china Medical Appliance Co., Ltd.	—	23
Guangzhou Pharmaceutical Goods and Supply Company	—	22
Balance		
Baolian Development Company Limited	20,201	361
Guangzhou Zhongfu Medical Company Limited	42	—
Guangzhou Baiyunshan Chinese Medicine Factory	621	297
Guangzhou Baiyunshan Pharmaceutical Factory	202	47
Guangzhou Pharmaceutical Economic Development Company	—	17
Guangzhou Medical Industry Research Center	—	18
Other receivables:		
Guangzhou Pharmaceutical Holdings Company Limited	6,312	7,227
Guangzhou Hejigong Pharmaceutical Co., Ltd.	25	—
Guangzhou South-china Medical Appliance Co., Ltd.	100	100
Baolian Development Company Limited	14,854	8,222
Guangzhou Zhongfu Medical Company Limited	—	3
Other payables:		
Guangzhou Pharmaceutical Holdings Company Limited	27,428	13,814
Guangzhou Zhongfu Medical Company Limited	207	207
Guangzhou Medical Industry Research Center	—	831
Guangzhou Baiyunshan Pharmaceutical Factory	101	—
Guangzhou Pharmaceutical Goods and Supply Company	1,724	—

Notes to the Accounting Statement

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS *(continued)*

(4) Related party transactions *(continued)*

4. Receivables and payables *(continued)*

Company name	Monetary unit: RMB'000	
	Closing balance	Beginning balance
Advances from Customers		
Guangzhou Qiaoguang Pharmaceutical Co., Ltd.	30	—
Guangzhou Mingxing Pharmaceutical Co., Ltd.	48	—
Guangzhou Hejigong Pharmaceutical Co., Ltd.	24	—
Guangzhou Guanghua Pharmaceutical Company Limited	1	—
Guangzhou Baiyunshan Chinese Medicine Factory	18	—
Guangzhou Baiyunshan Chemistry Medicine Factory	36	—

5. Receipt of services

Item	Note	Monetary unit: RMB'000	
		2004	2003
Service fee on staff housing	[1]	480	361
Comprehensive service fee	[2]	910	857
		<u>1,390</u>	<u>1,218</u>

Note[1] Pursuant to the Accommodation Service Agreement entered into by the Company and the Holding on September 1, 1997 and supplemented by a notice dated December 31, 1997, the Holding agreed providing continuously staff quarters to the employees of the Company. The Company agreed to pay a service fee equal to 6% of the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on December 31, 2007.

Note[2] Pursuant to the Composite Services Agreement entered into by the Company and the Holding on September 1, 1997, the Holding agreed to provide certain welfare facilities to the Group. The Company agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to the Holding's total depreciation charges of the welfare facilities in the year ended December 31, 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Service Agreement will expire on December 31, 2007.

Notes to the Accounting Statement

IX. RELATED PARTY RELATIONSHIPS & TRANSACTIONS *(continued)*

(4) Related party transactions *(continued)*

6. Rental

Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and the Holding on September 1, 1997, the Holding granted to the Company the right to use certain premises as warehouses and offices, in which the term of the Office Tenancy Agreement was 3 years, the agreement has been renewed when expired, the rental was paid at a fixed annual amount which were subject to the adjustment of standard rental as prescribed from time to time by Guangzhou Real Estate Administration Bureau; the tenancy agreements for other properties will expire on September 1, 2007 at rentals which were determined by the utilities and other outgoings which were payable based on the actual consumption.

Pursuant to the Office Tenancy Agreement entered into by the Company and the Holding on February 6, 2004, the Company rented the back tower of the Holding's building at No. 45 Shamian North Street from January 1, 2003 at a fixed annual rent which was subject to the adjustment of standard rental as prescribed from time to time by Guangzhou Real Estate Administration Bureau, the term will be expired until the rental prepayment is fully offset.

The Company shall pay such rental charges of RMB3,871 thousand for the current period (last cumulated: RMB3,242 thousand).

7. License fee

Pursuant to the Trademark License Agreement entered into by the Company and the Holding on September 1, 1997, the Holding granted the Company an exclusive right to use 38 trademarks owned by the Holding for a term of 10 years commencing at the signature date. The Company agreed to pay license fees for the use of the trademarks at 0.1% of its aggregate net sales. The Trademark License Agreement will expire on September 1, 2007. The Company shall pay the above License fee of RMB7,618 thousand for the current period (last cumulated: RMB7,542 thousand).

8. Prepaid rental

Pursuant to the Premises Agreement entered into by the Company and the Holding on August 28, 1998, the Holding agreed to grant the Company the right to use certain units of its new office building. The rent paid by the Company was determined by reference to a 38% discount on the market rent when the formal tenancy agreement was signed. As the Holding required funds for constructing the new office building, the Company made an advance payment of RMB6,000 thousand to the Holding during the year as agreed in the aforementioned agreement. The Holding has consented to use the advance payment exclusively for the construction of the new office building and offset the rental for the premises owed by the Company. The term will be expired until the advance payment is fully offset. The Company has prepaid such rental charges of RMB4,896 thousand as at December 31, 2004.

Notes to the Accounting Statement

IX. CONTINGENT EVENTS

1. The Group

(1) Up to December 31, 2004, there are no guaranties for external companies.

(2) Discount of bank acceptance bills

Up to December 31, 2004, the Group has discounted on promissory notes for RMB8,904 thousand.

2. The Company

As at December 31, 2004, the Company has provided guaranties for the following subsidiaries:

Company guaranteed	Guaranty content	Monetary unit: RMB'000	
		Amount	Period
Guangzhou Pangaoshou Pharmaceutical Co., Ltd.	Discounting trade acceptance bills	4,200	1 year
Guangzhou Pharmaceuticals Corporation	Loan of current fund	447,680	1 year
Guangzhou Pharmaceuticals Corporation	Making out bank acceptance bills	67,000	1 year
Guangzhou Chinese Medicine Corporation	Loan of current fund	107,000	1 year
Guangzhou Chinese Medicine Corporation	Discount of trade acceptance bills	4,770	1 year
Guangzhou Pharmaceutical Import & Export Corporation	Loan of current fund	22,000	1 year
Total		<u>652,650</u>	

X. COMMITMENTS

As at December 31, 2004, material commitments of the Group are as follows:

	Monetary unit: RMB'000	
	2004	2003
Project and equipment payables with contract signed	24,836	231,101
Leasing payables with contract signed	78,848	69,355

Notes to the Accounting Statement

XI. NON-ADJUSTING EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

1. Pursuant to the Subscription Agreement on Share Equity entered into by the Company and Golden Force Pharmacy Limited on November 8, 2004, Golden Force Pharmacy Limited agreed to invest RMB168,880 thousand in installments to Guangzhou Wanglaoji Pharmaceutical Co., Ltd., a subsidiary of the Company, to gain 48.0465% of equity interest in Guangzhou Wanglaoji Pharmaceutical Co., Ltd.. The Company's proportion of the equity interest in Guangzhou Wanglaoji Pharmaceutical Co., Ltd. will change from 92.48% to 48.0465% when Golden Force Pharmacy Limited injects all its investment.

Ministry of Commerce of the People's Republic of China has approved the capital increment mentioned above, and Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has modified its business license on January 25, 2005, its economic nature has been changed into joint stock company with limited liabilities and foreign investment. Guangzhou Wanglaoji Pharmaceutical Co., Ltd. has received the first installment on the capital increment amounted to HKD47,932 thousand from Golden Force Pharmacy Limited on February 28, 2005.

2. According to the resolution of Session 11 of the 3rd meeting of the board of directors, the board of directors of the Company proposed to allocate RMB0.025 per share for the year 2004, the total dividends planed to allocate were RMB20,272,500.00 at the total share of 810,900,000.

XII. DEBT RESTRUCTURING EVENTS

During the current reporting period, there are no debt restructuring events in the Group.

XIII. NON-MONETARY TRANSACTIONS

During the current reporting period, there are no material non-monetary transactions in the Group.

Notes to the Accounting Statement

XIV. ANALYSIS ON SIGNIFICANT CHANGES IN THE ITEMS OF THE ACCOUNTS

Items	Notes	As at 31	As at 31	Difference	
		December 2004	December 2003	Amount	Change(%)
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Notes receivable	1	185,210	52,281	132,929	254.26
Prepayments	2	160,244	120,102	40,142	33.42
Fixed assets-cost	3	1,980,499	1,505,443	475,056	31.56
Short-term loans	4	937,459	664,230	273,229	41.13
Accounts payable	5	848,629	644,881	203,748	31.59
Other payables	6	265,572	199,619	65,953	33.04

Items		2004	2003	Difference	
		<i>RMB'000</i>	<i>RMB'000</i>	Amount	Change(%)
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Financial expenses	7	37,873	22,200	15,672	70.60
Non-operating income	8	6,839	2,617	4,222	161.35
Net cash flows from operating activities	9	200,542	(6,830)	207,372	3036.20

- (1) Notes receivable of the Group as at 31 December 2004 increased by 254.26% as compared with 1 January 2004, which was because major customers of the Group used notes to settle the debtor as the business of the Group grew.
- (2) Advances to suppliers of the Group as at 31 December 2004 increased by 33.42% as compared with 1 January 2004, because purchases of Group's trading subsidiaries increased significantly as a result of the growth in their business, and more downpayments were required accordingly.
- (3) As at 31 December 2004, the cost of fixed assets increased by 31.56% over that of 1 January 2004, which was mainly because several projects had been transferred to fixed assets on completion during the year, such as relocation and renovation of Yunpu Plant by Guangzhou Zhong Yi Pharmaceutical Co., Ltd, the Huangjinwei Logistics Center by Guangzhou Pharmaceutical Corporation and the GMP renovation projects by each of the subsidiaries of the Company. Therefore, the construction on progress decreased accordingly;
- (4) Short-term borrowings as at 31 December 2004 of the Group increased by 41.13% over those as at 1 January 2004, which was mainly due to the discount of the undue notes payable to banks for cash by the Company's subsidiaries. Meanwhile, the revenue from the principal businesses of Guangzhou Pharmaceutical Corporation in 2004 recorded a significant increase over that of 2003, and its short-term borrowings increased in line with increasing requirement of liquidity;
- (5) The accounts payable as at 31 December 2004 increased by 31.59% over that of 1 January 2004, which was mainly due to the increase of purchase as a result of the business growth of the Group;

Notes to the Accounting Statement

XIV. ANALYSIS ON SIGNIFICANT CHANGES IN THE ITEMS OF THE ACCOUNTS

(continued)

- (6) Other amounts payable as at 31 December 2004 increased by 33.04% over those of 1 January 2004, which was mainly due to: (i) the increase in the amounts receivable entrusted to be collected by and payable to Bank of Communications, Guangzhou Branch as the transfer of accounts receivable of Guangzhou Pharmaceuticals Corporation, a subsidiary of the Company, increased with the growth of its sales volume; (ii) the accounts due and payable to GPLH Hanfang Contemporary Medicine Research & Development Co., Ltd, a subsidiary of the Company, was granted by the Ministry of Finance of PRC, with the support from GPLH, special funds for pharmaceutical research and development.
- (7) Finance cost of the Group for the Year increased by 70.60% over that of 2003, which was mainly due to the increase of interest expenses as a result of increase in short-term borrowings for the Year; and the increase of handling expenses charged by financial institutes as the funds were mainly financed by way of discounting of notes receivable and transfer of accounts receivable.
- (8) Income from other operations of the Group for the Year increased by 161.35% as compared with last year, mainly due to the compensation fee of RMB4,565,000 for relocation received by Guangzhou Chinese Medicine Corporation, a subsidiary of the Company.
- (9) Net cash inflows from operating activities of the Group for the Year increase by 3,036.20% as compared with last year, which was mainly due to the substantial growth of cash inflows from operating activities over the cash outflows from operating activities during the Reporting Period.

XV. DIFFERENCES BETWEEN THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP:

		31 December 2004 RMB'000	31 December 2003 RMB'000
Net assets under PRC accounting standards and systems		2,440,230	2,429,476
Intangible assets capitalised	1	48,125	58,571
Difference in fixed assets revaluation	2	130,833	132,808
Deferred income on government grants	3	(3,243)	—
Provision for employee benefits	4	(61,306)	(66,782)
Deferred taxation	5	5,981	12,708
Difference in minority interests	9	(15,028)	(15,364)
Net assets under HK GAAP		2,545,592	2,551,417

Notes to the Accounting Statement

XV. DIFFERENCES BETWEEN THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP: (continued)

		2004 RMB'000	2003 RMB'000
Net profit under PRC accounting and standards and systems		55,292	139,795
Amortisation of intangible assets	1	(10,446)	(10,446)
Additional depreciation on revalued fixed assets	2	(1,975)	(1,975)
Research and development cost overcharged		—	(4,228)
Government grant recognised as income	3	361	290
Reversal for difference in provision for employee benefits in medical insurance	4	5,476	4,980
Deferred taxation, net impact	5	(6,727)	(13,882)
Appropriation to staff bonus and welfare fund charged as expenses	6	(2,693)	(2,507)
Reversal of bad debts provision		—	26,067
Income arising from dilution of interest in a subsidiary		—	3,565
Loss arising from dilution of minority interest in a subsidiary	7	(1,908)	—
Unsettled long outstanding payables written off recognised as income	8	5,113	7,224
Differences in minority interests	9	336	(2,216)
		42,829	146,667
Profit attributable to shareholders under HK GAAP		42,829	146,667

- 1) This was the costs of renovation for staff quarters and was the losses incurred in 2000 for Guangzhou Pharmaceutical Company Limited and its subsidiaries (the "Group") in relation to the purchase of staff quarters by its employees. Under HK GAAP, such cost are recognised as an intangible asset and are subject to amortisation on a straight line basis over a period of 10 years for the estimated remaining average service life of its employees. Under PRC accounting standards and systems, the relevant losses adjusted the undistributed profit of the then beginning of the year.
- 2) The Group's assets were revalued by an international valuer in 1997 for the purpose of listing of the Company's H Shares. The said revaluation has been reflected in the accounts prepared under HK GAAP instead of the accounts prepared under PRC accounting standards and systems. The depreciation charged in the accounts prepared under HK GAAP was higher than that calculated under PRC accounting standards and systems as the former was calculated on the basis of revalued amount of fixed assets.
- 3) Government subsidies transferred to fixed assets were recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, income of government subsidies were deferred and were changed in the profit and loss account and calculated by straight line method in accordance with estimated useful life of the relevant assets.

Notes to the Accounting Statement

XV. DIFFERENCES BETWEEN THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2004 PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS AND SYSTEMS AND HK GAAP: *(continued)*

- 4) On 1st December 2001, the Group has participated in a medical insurance scheme set up and managed by the Guangzhou People's Municipal Government as required by the Pilot Scheme of Basic Medical Insurance for Employees of Guangzhou issued by the Guangzhou People's Municipal Government. Under the requirement of HK GAAP, the medical insurance for the past services of the retired and would-be retired staff was recognised as costs in the previous years. However, in the accounts prepared under PRC accounting standards and systems, such medical insurance was recognised as expenses on an reimbursement basis. Cash reimbursement is not acceptable by HK GAAP.
- 5) The Group has not made provision for deferred tax in the accounts prepared in accordance with PRC accounting standards and systems. For accounts prepared under HK GAAP, liability method was used to make full provision for the deferred tax liability in relation to all the temporary time differences, which made it possible to offset against the recognized deferred tax assets by future assessable profit and utilizable temporary time differences.
- 6) This was the staff bonus and welfare fund appropriated from profit after taxation in the accounts prepared under PRC accounting standard and systems. Under HK GAAP, it was recognised as expenses in the profit and loss account of the period.
- 7) Loss arising from the increase in capital by the Group in a subsidiary was recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, it was recognised in the profit and loss account in the then period and is transferred from profit after taxation to capital reserve.
- 8) Write-off of payables was recognised as capital reserve in the accounts prepared in accordance with PRC accounting standards and systems. Under HK GAAP, it was recognised in the profit and loss account and was transferred from profit after tax to capital reserve.
- 9) As there were differences between net profit/profit attributable to shareholders prepared under HK GAAP and that prepared under the PRC accounting standards and systems due to the above adjustments, resulting in the differences in minority interest.

INTERNATIONAL AUDITORS' REPORT

(Prepared in accordance with HK GAAP)

TO THE SHAREHOLDERS OF GUANGZHOU PHARMACEUTICAL COMPANY LIMITED

(a joint stock company established in the People's Republic of China with limited liability)

We have audited the accounts on pages 129 to 169 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004
(Prepared in accordance with HK GAAP)

	Note	2004 Rmb'000	2003 Rmb'000
Turnover	2	7,709,565	6,973,113
Cost of sales		(6,313,633)	(5,576,164)
Gross profit		1,395,932	1,396,949
Other revenues	2	65,146	74,923
Distribution costs		(557,377)	(504,230)
Administrative expenses		(666,716)	(606,298)
Other operating expenses		(27,555)	(19,807)
Operating profit	3	209,430	341,537
Finance costs	4	(47,194)	(34,172)
Operating profit after finance costs		162,236	307,365
Share of profits less losses of associated companies/joint ventures		(561)	464
Profit before taxation		161,675	307,829
Taxation	5	(110,295)	(148,393)
Profit after taxation		51,380	159,436
Minority interests		(8,551)	(12,769)
Profit attributable to shareholders		42,829	146,667
Dividend	21(c)	20,273	48,654
Earnings per share	7	Rmb0.053	Rmb0.181

CONSOLIDATED BALANCE SHEET

As at 31 December 2004
(Prepared in accordance with HK GAAP)

	Note	2004 Rmb'000	2003 Rmb'000
Non-current assets			
Intangible assets	9	57,546	61,483
Fixed assets	10	1,618,624	1,231,917
Construction in progress	11	119,645	305,929
Interests in associated companies/joint ventures	13	6,066	5,292
Investment securities	14	64,863	68,873
Deferred tax assets	23	49,155	56,533
		<u>1,915,899</u>	<u>1,730,027</u>
Current assets			
Inventories	15	1,077,959	1,067,900
Trade and other receivables	16	1,518,633	1,289,775
Trading securities	17	18,562	49,500
Bank balances and cash		882,385	816,889
		<u>3,497,539</u>	<u>3,224,064</u>
Current liabilities			
Trade and other payables	18	1,430,214	1,271,128
Taxation payable		34,680	44,825
Current portion of long-term bank loans	22	47,680	30,000
Short-term bank loans	19	937,459	664,230
		<u>2,450,033</u>	<u>2,010,183</u>
Net current assets		<u>1,047,506</u>	<u>1,213,881</u>
Total assets less current liabilities		<u>2,963,405</u>	<u>2,943,908</u>
Financed by:			
Share capital	20	810,900	810,900
Reserves	21	1,734,692	1,740,517
Shareholders' funds		2,545,592	2,551,417
Minority interests		212,287	182,627
Non-current liabilities			
Long-term bank loans	22	109,500	107,180
Deferred tax liabilities	23	43,174	43,826
Employee benefits	25	52,852	58,858
Zhou Yuejin	He Shuhua		
Director	Director		
		<u>2,963,405</u>	<u>2,943,908</u>

BALANCE SHEET

As at 31 December 2004
(Prepared in accordance with HK GAAP)

	Note	2004 Rmb'000	2003 Rmb'000
Non-current assets			
Intangible assets	9	1,215	1,458
Fixed assets	10	21,949	21,740
Investments in subsidiaries	12	1,477,475	1,504,535
Interests in associated companies/joint ventures	13	3,273	2,648
Investment securities	14	64,739	68,527
		<u>1,568,651</u>	<u>1,598,908</u>
Current assets			
Other receivables	16	433,873	382,125
Trading securities	17	18,562	49,500
Bank balances and cash		201,801	231,542
		<u>654,236</u>	<u>663,167</u>
Current liabilities			
Other payables	18	27,942	50,363
		<u>27,942</u>	<u>50,363</u>
Net current assets		<u>626,294</u>	<u>612,804</u>
Total assets less current liabilities		<u>2,194,945</u>	<u>2,211,712</u>
Financed by:			
Share capital	20	810,900	810,900
Reserves	21	1,384,045	1,400,812
		<u>2,194,945</u>	<u>2,211,712</u>
Zhou Yuejin Director	He Shuhua Director		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004
(Prepared in accordance with HK GAAP)

	Note	2004 Rmb'000	2003 Rmb'000
Total equity as at 1 January		2,551,417	2,454,080
Profit for the year	21	42,829	146,667
Reserve transferred to profit and loss account upon disposal of a subsidiary	21	—	(676)
Dividend	21	(48,654)	(48,654)
Total equity as at 31 December		<u>2,545,592</u>	<u>2,551,417</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004
(Prepared in accordance with HK GAAP)

	Note	2004 Rmb'000	2003 Rmb'000
Cash generated from operations	24(a)	299,499	106,268
Interest paid		(50,424)	(34,252)
Taxation paid-PRC enterprise income tax		(113,714)	(131,633)
Net cash inflow/(outflow) generated from operating activities		135,361	(59,617)
Investing activities			
Purchase of fixed assets		(71,609)	(46,620)
Payments for construction in progress		(232,602)	(314,313)
Purchase of intangible assets		—	(2,980)
Sale of fixed assets		1,011	5,254
Sale of a subsidiary, net of cash disposed		—	1,569
Purchase of a subsidiary, net of cash acquired	24(d)	(2,150)	—
Government grants received		13,822	23,075
Interest received		9,326	11,202
Dividends received from investments		8,403	3,671
Dividends received from an associated company		—	281
Sale of trading securities		41,413	20,000
Purchase of trading securities		(10,000)	(8,000)
Proceeds received from disposal of a joint venture		6,000	—
Purchase of associated companies		(1,795)	(1,675)
Disposal of associated companies		181	—
Sales of investment securities		277	—
Purchase of investment securities		(881)	(150)
Deposit received for partial disposal of a subsidiary		8,880	—
Repayment of amount borrowed by a joint venture		800	—
Repayment of amount borrowed by a fellow subsidiary		2,131	—
Net cash outflow from investing activities		(226,793)	(308,686)
Net cash outflow before financing activities		(91,432)	(368,303)
Financing activities	24(b)		
Capital contribution from minority shareholders		3,265	7,650
New loans payable		1,256,482	882,685
Repayment of amounts borrowed		(1,044,178)	(646,340)
Dividend paid		(48,654)	(48,654)
Dividends paid to minority shareholders		(9,987)	(8,933)
Net cash inflow from financing activities		156,928	186,408
Increase/(decrease) in cash and cash equivalents		65,496	(181,895)
Cash and cash equivalents at 1 January		816,889	998,784
Cash and cash equivalents at 31 December	24(e)	882,385	816,889

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") ("HK GAAP"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in securities are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting *(continued)*

(ii) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

(iii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(iv) Translation of foreign currencies

The Company and its principal subsidiaries maintain their books and records in Renminbi.

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Intangibles

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/joint venture/associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5-10 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition.

(ii) Patents and trademarks

Expenditure on acquired patents and trademarks is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Patents and trademarks are not revalued as there is no active market for these assets.

(iii) Staff quarters reform costs

Staff quarters reform costs are expenditures incurred by the Group prior to year 2000 in relation to purchases of staff quarters by its employees. Such costs are recognised as an asset. These costs are amortised on a straight-line basis over a period of not more than 10 years to reflect the estimated remaining average service life of the employees the Group in which the related economic benefits are recognised.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Intangibles (continued)

(iv) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(v) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(d) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to the usage of individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Property, plant and equipment

Land use rights and buildings other than investment properties are stated at cost less accumulated amortisation and depreciation and accumulated impairment losses.

Amortisation of land use rights is calculated to write off their cost less accumulated impairment losses on a straight-line basis over the unexpired land use period of 20 to 50 years.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Fixed assets (continued)

(ii) Property, plant and equipment (continued)

Depreciation of buildings is calculated to write off their cost less accumulated impairment losses on a straight-line basis over the unexpired land use period of 20 to 50 years or their expected useful lives to the Group, whichever is shorter, after taking into account their estimated residual value.

Other tangible property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis after taking into account their estimated residual value. The principal estimated useful lives are as follows:

Plant, machinery and equipment	5 - 15 years
Motor vehicles and office equipments	5 - 10 years

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in properties under construction and property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(iv) Construction in progress

Construction in progress is stated at cost less impairment losses. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. Plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

(e) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

Receivables sold or discounted with full right of recourse are derecognised when, and only when, the Group has lost control of its contractual rights to benefits related to the receivables either through realisation, expiry or surrender.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Employee benefits

(i) Pension obligation

The Group's contributions to the defined contribution retirement scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered by the employees.

(ii) Housing benefit

The Group's contributions to the housing fund scheme organised by the Guangzhou People's Municipal Government are expensed when services are rendered by the employees.

Costs of the housing allowance scheme designed and implemented by the Group are expensed when a legal or constructive obligation is established.

(iii) Medical insurance

The Group's contributions to the defined contribution medical insurance scheme organised by the Guangzhou People's Municipal Government for existing employees are expensed when services are rendered by the employees.

Contributions to the defined contribution medical insurance scheme for retired and retiring employees are accrued based on the period of their past services. Where the contributions do not fall due wholly within twelve months, the contributions payable are discounted using the discount rate determined by reference to market yields at the balance sheet date on high quality investments.

Further information of the Group's employee benefits is set out in Note 25.

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) **Contingent liabilities and contingent assets** *(continued)*

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) **Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from provision of services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Royalty income is recognised when the right to receive payment is established.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis.

Promotional income from suppliers is recognised when the right to receive payment is established.

Government grant is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

(o) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) **Segment reporting**

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format. No geographical segments are presented unless the turnover and results attributable to the markets outside the PRC are more than 10% of the Group's consolidated turnover and consolidated results.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities and investment properties. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets, fixed assets and construction in progress, including additions resulting from acquisition through purchase of subsidiaries.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of Chinese Patent Medicine ("CPM") and the wholesale, retail, import and export of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus. Revenues recognised during the year are as follows:

	2004	2003
	Rmb'000	Rmb'000
Turnover:		
Sales of goods	7,709,565	6,973,113
Other revenues:		
Government grants	375	290
Gain on dilution of interest in a subsidiary	—	3,565
Gain on disposal of a joint venture	—	934
Gain on disposal of a subsidiary	—	1,786
Interest income	9,326	11,210
Gross rental income from investment properties	21,883	21,286
Gross rental income from other properties	13,147	9,201
Promotional income from suppliers	9,433	12,947
Royalty income	2,032	1,600
Realised income on disposal of trading securities	1,666	—
Dividend income from investment securities	—	4,880
Others	7,284	7,224
	65,146	74,923
Total revenue	7,774,711	7,048,036

The Group is organised into the following business segments:

- Manufacturing of CPM;
- Wholesale of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus;
- Retail of western pharmaceutical products, CPM, Chinese raw medicine and medical apparatus;
- Import and export of western pharmaceutical products.

Other operations of the Group mainly comprise holding of investment properties and investments in securities, neither of which are of a sufficient size to be separately reported.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31 December 2004					
	Manufacturing <i>Rmb'000</i>	Wholesale <i>Rmb'000</i>	Retail <i>Rmb'000</i>	Import and export <i>Rmb'000</i>	Elimination <i>Rmb'000</i>	Group <i>Rmb'000</i>
Turnover						
External	1,920,231	5,339,957	278,830	170,547	—	7,709,565
Internal	16,656	261,155	9	23,114	(300,934)	—
Total	<u>1,936,887</u>	<u>5,601,112</u>	<u>278,839</u>	<u>193,661</u>	<u>(300,934)</u>	<u>7,709,565</u>
Segment results	<u>205,990</u>	<u>49,599</u>	<u>(17,006)</u>	<u>3,790</u>	<u>(10,012)</u>	232,361
Unallocated costs						(22,931)
Operating profit						209,430
Finance costs						(47,194)
Share of profits less losses of associated companies/joint ventures	(561)					(561)
Profit before taxation						161,675
Taxation						(110,295)
Profit after taxation						51,380
Minority interests						(8,551)
Profit attributable to shareholders						<u>42,829</u>
Segment assets	2,562,404	2,368,736	162,165	103,114	(338,484)	4,857,935
Interests in associated companies / joint ventures	6,066					6,066
Unallocated assets						549,437
Total assets						<u>5,413,438</u>
Segment liabilities	766,297	2,018,186	69,252	69,194	(338,484)	2,584,445
Unallocated liabilities						71,114
Total liabilities						<u>2,655,559</u>
Capital expenditure	307,879	16,200	4,085	366		328,530
Depreciation	89,529	26,031	2,362	509		118,431
Amortisation	7,863	3,206	—	30		11,099
Impairment charge of fixed assets	<u>2,521</u>	<u>—</u>	<u>—</u>	<u>—</u>		<u>2,521</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)

	Year ended 31 December 2003					
	Manufacturing <i>Rmb'000</i>	Wholesale <i>Rmb'000</i>	Retail <i>Rmb'000</i>	Import and export <i>Rmb'000</i>	Elimination <i>Rmb'000</i>	Group <i>Rmb'000</i>
Turnover						
External	1,890,364	4,544,134	354,438	184,177	—	6,973,113
Internal	27,648	189,671	17,015	33,568	(267,902)	—
Total	<u>1,918,012</u>	<u>4,733,805</u>	<u>371,453</u>	<u>217,745</u>	<u>(267,902)</u>	<u>6,973,113</u>
Segment results	<u>280,038</u>	<u>95,055</u>	<u>5,205</u>	<u>1,565</u>	<u>(12,445)</u>	369,418
Unallocated costs						(27,881)
Operating profit						341,537
Finance costs						(34,172)
Share of profits less losses of associated companies/joint ventures	464					464
Profit before taxation						307,829
Taxation						(148,393)
Profit after taxation						159,436
Minority interests						(12,769)
Profit attributable to shareholders						<u>146,667</u>
Segment assets	2,193,747	2,004,166	179,183	120,949	(309,913)	4,188,132
Interests in associated companies / joint ventures	5,292					5,292
Unallocated assets						760,667
Total assets						<u>4,954,091</u>
Segment liabilities	658,459	1,642,500	63,367	71,444	(309,913)	2,125,857
Unallocated liabilities						94,190
Total liabilities						<u>2,220,047</u>
Capital expenditure	303,812	54,732	4,145	665		363,354
Depreciation	80,901	20,481	4,064	209		105,655
Amortisation	7,469	3,015	—	30		10,514
Impairment charge of fixed assets	1,186	—	—	—		1,186

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

3 OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Charging:		
Depreciation and amortisation of fixed assets	118,431	105,655
Amortisation of intangible assets	11,099	10,514
Impairment charge of fixed assets (Note a)	2,521	1,186
Impairment charge of investment securities (Note c)	3,788	4,671
Provision for bad debts	5,095	—
Write-down of inventories to net realisable value	25,148	—
Impairment charge of trading securities	1,191	—
Outgoings in respect of investment properties	3,749	4,030
Outgoings in respect of other properties	2,629	1,840
Loss on disposal of fixed assets	7,852	4,917
Research and development costs	30,984	35,536
Auditors' remuneration	3,324	3,180
Staff costs:		
Pension benefit (Note 25(a))	61,455	58,311
Housing fund (Note 25(b))	30,538	22,113
Medical insurance (Note 25(c))	25,143	24,244
Housing allowances (Note 25(d))	12,132	19,290
Salaries, wages and other staff benefits	483,343	436,145
Operating leases for land and buildings	<u>36,172</u>	<u>30,716</u>
Crediting:		
Reversal of impairment charge of trading securities (Note b)	—	690
Recovery of bad debts previously written off	<u>—</u>	<u>9,437</u>

Note:

- (a) Impairment charge mainly arose as a result of technology upgrade, modernisation of production facilities.
- (b) Reversal of impairment charge of trading securities was a result of the increase in market values of the securities (Note 17).
- (c) Impairment charge of investment securities was a result of non-temporary decrease in fair value at balance sheet date.

4 FINANCE COSTS

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Interest expense	48,513	37,385
Other incidental borrowing costs	<u>2,427</u>	<u>1,966</u>
Total borrowing costs incurred	50,940	39,351
Less: interest capitalised in construction in progress	<u>(3,746)</u>	<u>(5,179)</u>
	<u>47,194</u>	<u>34,172</u>

The capitalisation rate applied to funds borrowed generally and used for the development of construction in progress is between 4.32% and 5.49% (2003: 4.94 ~ 5.49%) per annum.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

5 TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Current taxation:		
- PRC enterprise income tax	103,569	134,425
Deferred taxation relating to the origination and reversal of temporary differences	6,726	13,882
	110,295	148,307
Share of taxation attributable to associated companies	—	86
Taxation charges	110,295	148,393

The PRC enterprise income tax has been provided at the principal rate of 33% (2003: 33%) on the estimated assessable profit for the year, except for a subsidiary which is a foreign investment production enterprise established in a coastal economic development zone, with an applicable enterprise income tax rate at 27%.

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the PRC enterprise income tax as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Profit before taxation	161,675	307,829
Calculated at a taxation rate of 33% (2003: 33%)	53,353	101,584
Effect of different taxation rates applicable to a subsidiary	(2,120)	(2,488)
Income not subject to taxation	(2,081)	(13,350)
Expenses not deductible for taxation purposes	63,374	63,995
Tax refund (Note)	(2,231)	(1,348)
Taxation charge	110,295	148,393

Companies comprising the Group that are incorporated outside the PRC are liable to pay income tax on their taxable income in accordance with the tax laws of the countries in which they operated.

Note: The amount in 2004 represented income tax credit granted for qualified technology improvement on domestic equipment which has been set off against the taxation charges for the year.

6 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of Rmb24,473,000 (2003: Rmb67,000,000).

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

7 EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of Rmb42,829,000 (2003: Rmb146,667,000) and the 810,900,000 (2003: 810,900,000) shares in issue.

No diluted earnings per share is presented as there were no potential dilutive shares in issue during the years ended 31 December 2004 and 2003.

8 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments

The aggregate amounts of emoluments payable to directors, supervisors and senior management of the Company during the year are as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Fees		
Executive directors	—	—
Non-executive directors	278	309
Supervisors	—	—
Other emoluments for executive directors		
Basic salaries, allowances and benefits in kind	430	866
Bonuses	1,754	2,438
Retirement benefits	48	57
Other emoluments for supervisors		
Basic salaries, allowances and benefits in kind	107	242
Bonuses	107	321
Retirement benefits	14	14
Other emoluments for senior management		
Basic salaries, allowances and benefits in kind	130	370
Bonuses	297	489
Retirement benefits	—	28
	<u>3,165</u>	<u>5,134</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

8 DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(continued)

(a) Directors', supervisors' and senior management's emoluments (continued)

The emoluments of the directors, supervisors and senior management fell within the following bands:

Emolument bands	Number of directors	
	2004	2003
Nil - Rmb1,000,000	13	15
Rmb1,000,001 - Rmb1,500,000	1	—
	<u>14</u>	<u>15</u>

During the year, one supervisor waived emoluments of Rmb22,500. No director, supervisor or senior management waived emoluments in respect of the years ended 31 December 2003.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: one) individuals during the year are as follows:

	2004	2003
	Rmb'000	Rmb'000
Basic salaries, allowances and benefits in kind	499	140
Bonuses	1,330	690
Retirement benefits	48	14
	<u>1,877</u>	<u>844</u>

The emoluments fell within the following band:

Emolument bands	Number of individuals	
	2004	2003
Nil - Rmb1,000,000	3	1
	<u>3</u>	<u>1</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

9 INTANGIBLE ASSETS

	Group			Total <i>Rmb'000</i>
	Staff quarters reform costs <i>Rmb'000</i>	Patent and trademarks <i>Rmb'000</i>	Goodwill <i>Rmb'000</i>	
Net book value at 1 January 2004	58,571	2,912	—	61,483
Additions	—	5,008	2,154	7,162
Amortisation charge	(10,446)	(503)	(150)	(11,099)
Net book value at 31 December 2004	<u>48,125</u>	<u>7,417</u>	<u>2,004</u>	<u>57,546</u>
At 31 December 2004				
Cost	104,467	7,988	2,154	114,609
Accumulated amortisation	(56,342)	(571)	(150)	(57,063)
Net book value	<u>48,125</u>	<u>7,417</u>	<u>2,004</u>	<u>57,546</u>
At 31 December 2003				
Cost	104,467	2,980	—	107,447
Accumulated amortisation	(45,896)	(68)	—	(45,964)
Net book value	<u>58,571</u>	<u>2,912</u>	<u>—</u>	<u>61,483</u>
		Company		
		2004	2003	
		<i>Rmb'000</i>	<i>Rmb'000</i>	
Staff quarters reform costs				
Net book value at 1 January		1,458	1,701	
Amortisation charge		(243)	(243)	
Net book value at 31 December		<u>1,215</u>	<u>1,458</u>	
At 31 December				
Cost		2,524	2,524	
Accumulated amortisation		(1,309)	(1,066)	
Net book value		<u>1,215</u>	<u>1,458</u>	

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

10 FIXED ASSETS

Group

	Investment properties Rmb'000	Land use rights Rmb'000	Land and buildings Rmb'000	Plant, machinery and equipment Rmb'000	Motor vehicles Rmb'000	Total Rmb'000
Cost or valuation						
At 1 January 2004	8,712	109,220	960,677	664,253	91,220	1,834,082
Additions	—	9,548	34,104	30,368	6,616	80,636
Contribution by						
minority shareholders	—	—	5,690	3,181	637	9,508
Acquisition of a subsidiary	—	—	—	490	581	1,071
Transfer from construction in progress	—	—	185,721	243,197	621	429,539
Disposals	—	—	(5,533)	(18,707)	(6,573)	(30,813)
At 31 December 2004	8,712	118,768	1,180,659	922,782	93,102	2,324,023
Accumulated depreciation and amortisation						
At 1 January 2004	—	18,136	198,544	333,794	51,691	602,165
Depreciation and amortisation charge	—	3,603	49,103	50,896	14,829	118,431
Contribution by						
minority shareholders	—	—	1,549	1,681	384	3,614
Acquisition of subsidiary	—	—	—	175	443	618
Impairment charge (Note 3)	—	966	41	1,514	—	2,521
Disposals	—	—	(2,650)	(13,261)	(6,039)	(21,950)
At 31 December 2004	—	22,705	246,587	374,799	61,308	705,399
Net book value						
At 31 December 2004	8,712	96,063	934,072	547,983	31,794	1,618,624
At 31 December 2003	8,712	91,084	762,133	330,459	39,529	1,231,917
The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:						
At cost	—	118,768	1,180,659	922,782	93,102	2,315,311
At 2004 valuation	8,712	—	—	—	—	8,712
	8,712	118,768	1,180,659	922,782	93,102	2,324,023
The analysis of the cost or valuation at 31 December 2003 of the above assets is as follows:						
At cost	—	109,220	960,677	664,253	91,220	1,825,370
At 2003 valuation	8,712	—	—	—	—	8,712
	8,712	109,220	960,677	664,253	91,220	1,834,082

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

10 FIXED ASSETS (continued)

Company

	Land and buildings <i>Rmb'000</i>	Plant, machinery and equipment <i>Rmb'000</i>	Motor vehicles <i>Rmb'000</i>	Total <i>Rmb'000</i>
Cost				
At 1 January 2004	25,055	15,907	1,530	42,492
Additions	—	3,743	—	3,743
Disposals	—	(142)	—	(142)
At 31 December 2004	25,055	19,508	1,530	46,093
Accumulated depreciation				
At 1 January 2004	13,476	6,977	299	20,752
Depreciation charge	466	2,887	151	3,504
Disposals	—	(112)	—	(112)
At 31 December 2004	13,942	9,752	450	24,144
Net book value				
At 31 December 2004	11,113	9,756	1,080	21,949
At 31 December 2003	11,579	8,930	1,231	21,740

All of the Group's investment properties and buildings are located in the PRC, except for a property with a net book value of Rmb9,556,000 (2003: Rmb9,919,000) which is located in Hong Kong. The land use rights of the land where the Group's investment properties and buildings in the PRC are situated were granted by the State Land Administration Bureau of Guangzhou for periods of 20 to 50 years.

Investment properties have been revalued at their industrial use value by Mr. K.K. Ip of Greater China Appraisal Limited, an independent firm of valuers, at 31 December 2004. Mr. K.K. Ip is a Chartered Valuation Surveyor and a Registered Professional Surveyor.

At 31 December 2004, the net book value of fixed assets pledged as security for the Group's bank loans amounted to Rmb130,344,000 (2003: Rmb118,400,000).

11 CONSTRUCTION IN PROGRESS

	Group	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
At 1 January	305,929	236,616
Additions	236,348	312,996
Contribution by minority shareholders	6,538	—
Acquisition of a subsidiary	369	—
Transfer to fixed assets	(429,539)	(243,683)
At 31 December	119,645	305,929

Construction in progress included interest capitalised amounted to Rmb3,746,000 (2003: Rmb62,540).

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

12 INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 Rmb'000	2003 Rmb'000
Investments in subsidiaries - unlisted shares, at cost	1,574,623	1,504,535
Less: provision for impairment losses	(97,148)	—
	<u>1,477,475</u>	<u>1,504,535</u>

Particulars of principal subsidiaries are set out in Note 29.

13 INTERESTS IN ASSOCIATED COMPANIES/JOINT VENTURES

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Unlisted shares, at cost	—	—	3,273	2,648
Share of net assets	6,066	5,292	—	—

At 31 December 2004, the Group held shares in the following associated companies and joint ventures:

Name	Particulars of equity held	Place of establishment/ registration	% of equity interest	Principal activities
Guangzhou Lianjie computer technology Co., Ltd.	Registered capital: Rmb500,000	PRC	50	ERP Consulting Service
Guangzhou Zhong Fu Medical Co., Ltd.	Registered capital: Rmb800,000	PRC	50	Production of CPM
PT. Purusa Bhakti	Ordinary shares of US\$1 each	Indonesia	50	Dormant
Ming Tai Enterprises (Thailand) Ltd.	Ordinary shares of Baht1 each	Thailand	40	Dormant
Guangzhou Jinshen Medical Co., Ltd.	Registered capital: Rmb1,500,000	PRC	38.25	Production of health medicine
Guangzhou Jihua Bio-chemical Co., Ltd.	Registered capital Rmb10,000,000	PRC	24	Development, manufacture and sales of medical apparatus and instruments

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

14 INVESTMENT SECURITIES

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Unlisted equity securities	<u>64,863</u>	<u>68,873</u>	<u>64,739</u>	<u>68,527</u>

At 31 December 2004 and 2003, investment securities were stated at cost less any provision for impairment losses.

The amount of provision for impairment losses at 31 December 2004 was Rmb8,459,000 (2003: Rmb4,671,000).

15 INVENTORIES

	Group	
	2004 Rmb'000	2003 Rmb'000
Raw materials	118,008	116,341
Work-in-progress	79,291	62,652
Finished goods	95,586	80,768
Merchandise	783,119	802,337
Production supplies	1,955	5,802
	<u>1,077,959</u>	<u>1,067,900</u>

At 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to Rmb2,628,000 (2003: Nil).

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Trade receivables (Note a)	1,152,934	930,728	—	—
Other receivables and prepayments	352,991	335,238	1,858	7,840
Due from				
Subsidiaries (Note b)	—	—	338,484	307,991
Ultimate holding company and fellow subsidiaries (Note c)	12,708	23,809	4,896	3,795
Dividend receivable from subsidiaries	—	—	88,635	62,499
	<u>1,518,633</u>	<u>1,289,775</u>	<u>433,873</u>	<u>382,125</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

16 TRADE AND OTHER RECEIVABLES (continued)

- (a) Trade receivables generated from credit sales generally have credit terms of one to three months. The ageing analysis of the trade receivables net of doubtful debt provision as at 31 December 2004 is as follows:

	Group	
	2004	2003
	Rmb'000	Rmb'000
Within 6 months	1,035,255	860,302
6 months to 1 year	104,247	53,452
Over 1 year	13,432	16,974
	<u>1,152,934</u>	<u>930,728</u>

Provision is made for long outstanding and doubtful debts based on reviews of the status of trade receivables outstanding.

- (b) The amounts due are unsecured, interest bearing at commercial market rate and repayable on demand.
- (c) The amounts due are unsecured, interest free and repayable on demand.
- (d) At 31 December 2004, trade receivables amounted to Rmb100,661,000 were discounted by companies in the Group to banks in the PRC with full right of recourse. The corresponding collateralised borrowings were included in short-term loans.

17 TRADING SECURITIES

	Group		Company	
	2004	2003	2004	2003
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Equity securities, listed in the PRC	—	3,565	—	3,565
Other unlisted investments	18,562	45,935	18,562	45,935
	<u>18,562</u>	<u>49,500</u>	<u>18,562</u>	<u>49,500</u>
Market value of listed	—	4,476	—	4,476

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

18 TRADE AND OTHER PAYABLES

	Group		Company	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
Trade payables (Note a)	985,686	857,682	—	—
Due to subsidiaries (Note b)	—	—	1,407	36,407
Due to ultimate holding company (Note b)	19,865	13,762	—	—
Other payables and accrued charges	424,663	399,684	26,535	13,956
	<u>1,430,214</u>	<u>1,271,128</u>	<u>27,942</u>	<u>50,363</u>

(a) The ageing analysis of the trade payables at 31 December 2004 is as follows:

	Group	
	2004 Rmb'000	2003 Rmb'000
Within 1 year	952,171	811,038
1 year to 2 years	13,724	17,399
Over 2 years	19,791	29,245
	<u>985,686</u>	<u>857,682</u>

(b) The amounts due are unsecured, interest free and have no fixed term of repayments.

19 SHORT-TERM BANK LOANS

	Group	
	2004 Rmb'000	2003 Rmb'000
Secured	255,959	148,300
Unsecured	681,500	515,930
	<u>937,459</u>	<u>664,230</u>

20 SHARE CAPITAL

	Registered, issued and fully paid			
	2004		2003	
	No. of shares	Rmb'000	No. of shares	Rmb'000
State Shares	513,000,000	513,000	513,000,000	513,000
H Shares	219,900,000	219,900	219,900,000	219,900
A Shares	78,000,000	78,000	78,000,000	78,000
Total	<u>810,900,000</u>	<u>810,900</u>	<u>810,900,000</u>	<u>810,900</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

21 RESERVES

	Group						
	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Retained earnings	Total
	(Note a)	(Note b)	(Note b)	(Note b)	(Note b)		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2003	781,134	390,171	160,635	109,729	66,066	135,445	1,643,180
Profit for the year	—	—	—	—	—	146,667	146,667
2002 final dividend paid	—	—	—	—	—	(48,654)	(48,654)
Transfers, net	—	7,418	33,978	24,893	21,821	(88,110)	—
Release upon disposal of a subsidiary	—	—	(307)	(163)	(206)	—	(676)
At 31 December 2003	781,134	397,589	194,306	134,459	87,681	145,348	1,740,517
Representing:—							
2003 final dividend proposed (Note c)						48,654	
Others						96,694	
Retained earnings at 31 December 2003						145,348	
The Company and subsidiaries	781,134	397,589	194,306	134,459	87,681	150,904	1,746,073
Associated companies / joint ventures	—	—	—	—	—	(5,556)	(5,556)
	781,134	397,589	194,306	134,459	87,681	145,348	1,740,517

	Group						
	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Retained earnings	Total
	(Note a)	(Note b)	(Note b)	(Note b)	(Note b)		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2004	781,134	397,589	194,306	134,459	87,681	145,348	1,740,517
Profit for the year	—	—	—	—	—	42,829	42,829
2003 final dividend paid	—	—	—	—	—	(48,654)	(48,654)
Transfers, net	—	2,243	23,716	19,114	21,319	(66,392)	—
At 31 December 2004	781,134	399,832	218,022	153,573	109,000	73,131	1,734,692
Representing:-							
2004 final dividend proposed (Note c)						20,273	
Others						52,858	
Retained earnings at 31 December 2004						73,131	
The Company and subsidiaries	781,134	399,832	218,022	153,573	109,000	77,847	1,739,408
Associated companies / joint ventures	—	—	—	—	—	(4,716)	(4,716)
	781,134	399,832	218,022	153,573	109,000	73,131	1,734,692

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

21 RESERVES (continued)

	Company					
	Share premium	Capital reserve (Note a)	Statutory surplus reserve (Note b)	Statutory public welfare (Note b)	Retained earnings	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At 1 January 2003	781,134	394,259	72,275	52,001	57,704	1,357,373
Profit for the year	—	—	—	—	92,093	92,093
2002 final dividend paid	—	—	—	—	(48,654)	(48,654)
Transfers, net	—	3,565	14,352	7,176	(25,093)	—
At 31 December 2003	781,134	397,824	86,627	59,177	76,050	1,400,812
Representing: —						
2003 final dividend proposed (Note c)					48,654	
Others					27,396	
Retained earnings at 31 December 2003					<u>76,050</u>	
At 1 January 2004	781,134	397,824	86,627	59,177	76,050	1,400,812
2003 final dividend paid	—	—	—	—	(48,654)	(48,654)
Profit for the year	—	—	—	—	31,887	31,887
Transfers, net	—	100	4,876	2,438	(7,414)	—
At 31 December 2004	781,134	397,924	91,503	61,615	51,869	1,384,045
Representing: —						
2004 final dividend proposed (Note c)					20,273	
Others					31,596	
Retained earnings at 31 December 2004					<u>51,869</u>	

(a) Capital reserve

Transfers from retained earnings included:

- an amount of Rmb361,000 (2003: Rmb254,000) represented is deferred income on government grants during the year net of minority interests during the year;
- an amount of Rmb5,113,000 (2003: Rmb4,922,000) represented waiver of debts during the year net of minority interests.
- an amount of Rmb3,565,000 in 2003 represented income arising from dilution of interest in a subsidiary.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

21 RESERVES (continued)

(a) Capital reserve (continued)

Transfer to retained earnings included:

- an amount of Rmb1,323,000 (2003: Rmb1,323,000) represented depreciation on revalued fixed assets net of deferred tax credits.
- an amount of Rmb1,908,000 (2003: Nil) represented loss arising from capital injection in a subsidiary.

(b) Surplus reserve

The Company, its subsidiaries and associated companies established in the PRC ("PRC Companies") are required to maintain certain surplus reserves by transferring from their profit after taxation in accordance with the relevant laws and regulations and, if applicable, Articles of Association, before any dividend is declared and paid.

Statutory surplus reserve

The PRC Companies are required to transfer 10% of their profit after taxation, in accordance with the PRC accounting standards and systems, to the statutory surplus reserve calculated until the balance reaches 50% of their respective registered capital, where further transfers will be at their directors' recommendation. The statutory surplus reserve can only be used to make up prior year losses or to increase share capital.

Statutory public welfare fund

The PRC Companies are required to transfer 5% to 10% of their profit after taxation, calculated in accordance with the PRC accounting standards and systems, to the statutory public welfare fund. The statutory public welfare fund can only be used for capital expenditure on employees' collective welfare facilities. The fund is non-distributable other than in liquidation.

Discretionary surplus reserve

In accordance with relevant PRC regulations and subject to approval by shareholders in general meeting, discretionary surplus reserve can be used to reduce any losses incurred, to increase share capital, and to pay dividends.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

21 RESERVES (continued)

(c) Dividend

	2004 Rmb'000	2003 <i>Rmb'000</i>
Final, proposed, of Rmb0.025 (2003: Rmb0.06) per share	<u>20,273</u>	<u>48,654</u>

At a meeting held on 27 April 2005, the directors declared a final dividend of Rmb0.025 per share. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

(d) Profit distribution

The net profit of the Company shall be applied in accordance with the following order:

- (i) making up losses;
- (ii) allocation to statutory surplus reserve fund;
- (iii) allocation to statutory public welfare fund;
- (iv) allocation to discretionary surplus reserve fund - to be recommended by directors; and
- (v) payment of dividends.

According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount determined in accordance with PRC accounting standards and systems and the amount determined in accordance with HK GAAP.

22 LONG-TERM BANK LOANS

	2004 Rmb'000	Group 2003 <i>Rmb'000</i>
Bank loans - wholly repayable within five years		
Secured	59,500	59,500
Unsecured	<u>97,680</u>	<u>77,680</u>
Current portion of long-term bank loans	<u>157,180</u> <u>(47,680)</u>	<u>137,180</u> <u>(30,000)</u>
	<u>109,500</u>	<u>107,180</u>

At 31 December 2004, the Group's bank loans were repayable as follows:

Within one year	47,680	30,000
In the second year	109,500	47,680
In the third to fifth year	<u>—</u>	<u>59,500</u>
	<u>157,180</u>	<u>137,180</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

23 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2003: 33%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	Group	
	2004 Rmb'000	2003 Rmb'000
At 1 January	(12,707)	(26,589)
Deferred taxation charged/(credited) to profit and loss account (Note 5)	<u>6,726</u>	<u>13,882</u>
At 31 December	<u>(5,981)</u>	<u>(12,707)</u>

Deferred taxation of Rmb652,000 (2003: Rmb652,000) was transferred within shareholders' equity from revaluation reserves (Note 21 (a)) to retained earnings. This represents deferred taxation on the difference between the actual depreciation on land and buildings, plant, machinery and equipment and the equivalent depreciation based on the historical cost of land and buildings, plant, machinery and equipment.

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax assets	Provisions		Impairment of assets		Employee benefits		Others		Total	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
At 1 January	(19,171)	(25,335)	(7,349)	(18,699)	(21,764)	(23,387)	(8,249)	(5,041)	(56,533)	(72,462)
Charged/(credited) to profit and loss account	<u>3,350</u>	<u>6,164</u>	<u>128</u>	<u>11,350</u>	<u>1,554</u>	<u>1,623</u>	<u>2,346</u>	<u>(3,208)</u>	<u>7,378</u>	<u>15,929</u>
At 31 December	<u>(15,821)</u>	<u>(19,171)</u>	<u>(7,221)</u>	<u>(7,349)</u>	<u>(20,210)</u>	<u>(21,764)</u>	<u>(5,903)</u>	<u>(8,249)</u>	<u>(49,155)</u>	<u>(56,533)</u>

Deferred tax liabilities	Fixed assets revaluation		Research and development expenses		Total	
	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000	2004 Rmb'000	2003 Rmb'000
At 1 January	43,826	44,478	—	1,395	43,826	45,873
Charged / (credited) to profit and loss account	<u>(652)</u>	<u>(652)</u>	<u>—</u>	<u>(1,395)</u>	<u>(652)</u>	<u>(2,047)</u>
At 31 December	<u>43,174</u>	<u>43,826</u>	<u>—</u>	<u>—</u>	<u>43,174</u>	<u>43,826</u>

The amounts shown in the balance sheet include the following:

	2004 Rmb'000	2003 Rmb'000
Deferred tax assets to be recovered after more than 12 months	23,039	26,145
Deferred tax liabilities to be settled after more than 12 months	<u>42,522</u>	<u>43,174</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Operating profit after finance costs	162,515	307,365
Amortisation of intangible assets	11,099	10,514
Depreciation of fixed assets	118,431	105,655
Impairment charges	37,743	5,857
Gain on disposal of a joint venture	—	(934)
Gain on disposal of a subsidiary	—	(1,786)
Realised gains on disposal of trading securities	(1,666)	—
Unrealised gains on trading securities	—	(699)
Loss on disposal of investment securities	385	—
Loss on disposal of fixed assets	7,852	4,917
Interest income	(9,326)	(11,210)
Interest expenses	47,194	34,172
Income from investment securities	—	(4,880)
Loss/(gain) arising from change of interest in a subsidiary	1,908	(3,565)
Operating profit before working capital changes	376,135	445,406
Increase in inventories	(26,032)	(220,060)
Increase in trade and other receivables	(116,591)	(273,606)
Increase in trade and other payables	65,987	154,528
Cash generated from operations	<u>299,499</u>	<u>106,268</u>

(b) Analysis of changes in financing during the year

	Share capital including premium		Minority interests		Bank loans and other liabilities	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
At 1 January	1,592,034	1,592,034	182,627	149,072	881,365	645,020
Acquisition of a subsidiary	—	—	2,860	—	7,000	—
Cash contribution by minority shareholders	—	—	3,265	7,650	—	—
Non-cash contribution by minority shareholders (Note 24(c))	—	—	23,063	25,634	—	—
Minority interests' share of profits	—	—	8,551	12,769	—	—
Cash inflows	—	—	—	—	206,274	236,345
Dividends paid to minority shareholders	—	—	(9,987)	(8,933)	—	—
Changes arising from dilution of interest in a subsidiary	—	—	1,908	(3,565)	—	—
At 31 December	<u>1,592,034</u>	<u>1,592,034</u>	<u>212,287</u>	<u>182,627</u>	<u>1,094,639</u>	<u>881,365</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Major non-cash transactions

In 2004, the Group, the Medicine Technology College of Guangxi and other parties jointly setup Guangxi Yingkang Pharmaceutical Co., Ltd. The Group holds 51% shares, and other parties the remaining 49%. The minor shareholders invested with non-cash assets such as machineries, buildings and account receivables valued at approximately Rmb20,235,000.

(d) Acquisition of a subsidiary

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Net assets acquired		
Fixed assets	453	—
Construction in progress	369	—
Inventories	2,345	—
Trade and other receivables	21,481	—
Bank balances and cash	1,739	—
Trade and other payables	(13,549)	—
Loans	(7,000)	—
Minority shareholders' interests	(2,860)	—
	<u>2,978</u>	<u>—</u>
Goodwill	<u>911</u>	<u>—</u>
Satisfied by		
Cash	<u>3,889</u>	<u>—</u>

On 27th February 2004, the Group acquired 51% of the share capital of Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd. ("GZPYMCL"), which engages in pharmaceutical trading and is incorporated in Guangzhou, the PRC. The consideration of approximately Rmb3,889,000, which represents the fair value of the net identifiable assets of GZPYMCL at the date of acquisition, was settled in cash. The acquired business contributed revenues of approximately Rmb88,543,000 and operating profit of approximately Rmb385,000 to the Group for the period from 27th February 2004 to 31st December 2004.

The net cash flow is determined as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Net proceeds	(3,889)	—
Less: cash and cash equivalents in a subsidiary	<u>1,739</u>	<u>—</u>
Cash flow, net of cash disposed	<u>(2,150)</u>	<u>—</u>

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Analysis of balances of cash and cash equivalent

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Bank balances and cash on hand	<u>882,385</u>	<u>816,889</u>

25 EMPLOYEE BENEFITS

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Medical insurance scheme (Note c)	59,019	64,333
Housing allowances scheme (Note d)	<u>10,352</u>	<u>12,062</u>
	69,371	76,395
Less: Current portion of employee benefits included in other payables and accrued charges	<u>(16,519)</u>	<u>(17,537)</u>
	<u>52,852</u>	<u>58,858</u>

As stipulated by the relevant regulations of the PRC, the Company and its subsidiaries in the Guangzhou City have participated in a number of defined contribution employees benefit plans for its existing and retired employees organised by the government. The Group has no other material obligation for payment of employee benefits, including any post-employment benefits, beyond the schemes as described below:

(a) Pension scheme

All employees are entitled to retirement pension benefits equal to a fixed proportion of their salary at their normal retirement age. The Group's annual obligation for payment of this pension contribution is calculated at a rate of approximately 20% based on the employees' total salaries of its employees.

The Group has no contributions payable to the pension scheme at the year end (2003: Nil).

(b) Housing fund scheme

The Company and its subsidiaries in the PRC are obligated to make contribution to a defined contribution scheme for the housing benefit of their employees. The Group's annual obligation for payment of this housing benefit contribution is calculated at a rate of approximately 8% based on the employees' total salaries.

The Group has no contributions payable to the housing scheme at the year end (2003: Nil).

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

25 EMPLOYEE BENEFITS (continued)

(c) Medical insurance scheme

As required by the Provisional Rules of Medical Insurance issued by the Guangzhou People's Municipal Government effective on 1 December 2001, it is mandatory for the Company and its subsidiaries in the PRC to participate in a medical insurance scheme set up and managed by the Government. Employees, included those retired employees, can be benefited from the medical insurance scheme around one month after the registration date.

The Group's annual obligations for payment of this medical insurance contribution is based on 7.5% to 8 % of the preceding year's average annual salary of the Group or the preceding year's average annual salary of the Guangzhou City, depending on the length of the employment period of the employee concerned.

(d) Housing allowances scheme

Pursuant to the resolution passed at the directors' meeting held on 1 July 2002, the Group developed and implemented a housing allowance scheme, which took effect in 2002. The scheme allows the Company and its subsidiaries in the PRC to pay its employees housing allowances if the Company and its subsidiaries are able to meet the budgeted profit after taxation as determined by the board of directors. The final housing allowances payable however is limited to the difference between the actual and budgeted profit after taxation of the Company.

26 COMMITMENTS

(a) Capital commitments

	Group	
	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Contracted but not provided for:		
Land use rights and buildings	—	78,730
Plant, machinery and equipment	24,836	152,271
	24,836	231,001
Authorised but not provided for:		
Plant, machinery and equipment	50,689	135,692
	75,525	366,693

(b) Commitments under operating leases

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 <i>Rmb'000</i>	2003 <i>Rmb'000</i>
Not later than one year	21,134	21,441
Later than one year and not later than five years	40,264	32,101
Later than five years	17,450	15,813
	78,848	69,355

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

27 FUTURE OPERATING LEASE ARRANGEMENTS

At 31 December 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of land and buildings are as follows:

	2004 Rmb'000	2003 <i>Rmb'000</i>
Not later than one year	21,528	19,484
Later than one year and not later than five years	63,281	81,911
	84,809	101,395

28 RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	<i>Note</i>	2004 Rmb'000	2003 <i>Rmb'000</i>
Ultimate holding company			
Licence fee expense	a	7,618	7,542
Service fee expense	b	910	857
Welfare facilities fee expense	c	480	361
Rental expense	d	3,871	2,690
Capital contribution to a subsidiary of the Company	e	48,369	25,634
Jointly controlled entities			
Sales of semi-finished goods		—	1,177
Associated companies			
Sales of finished goods		—	1,460
Purchase of finished goods		108	—
Fellow subsidiaries and other related parties			
Sales of finished goods and raw materials	f	84,145	105,806
Purchase of finished goods and raw materials	f	104,449	156,655

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

28 RELATED PARTY TRANSACTIONS *(continued)*

- (a) Pursuant to the Trademark Licence Agreement entered into by the Company and Guangzhou Pharmaceutical Holdings Limited ("GPHL"), its ultimate holding company, on 1st September 1997, GPHL has granted the Company and its subsidiaries, an exclusive right to use 38 trademarks owned by GPHL for a term of 10 years. The Company agreed to pay a licence fee for the use of the trademarks at 0.1% of the aggregate net sales of the Company and its subsidiaries.
- (b) Pursuant to the Accommodation Services Agreement entered into by the Company and GPHL on 1st September 1997 and supplemented by a notice dated 31st December 1997, GPHL has agreed to continue to provide staff quarters to the employees of the Group. The Company agreed to pay a service fee equal to 6% per annum on the net book value of the relevant staff quarters. The Accommodation Services Agreement will expire on 31st December 2007.
- (c) Pursuant to the Composite Services Agreement entered into by the Company and GPHL on 1st September 1997, GPHL agreed to provide certain welfare facilities to the Group. The Group agreed to be responsible for the operation, management and maintenance of the facilities and pay a welfare facilities fee equal to GPHL's total depreciation charges of the welfare facilities in the year ended 31st December 1997 plus a 10% annual increment based on the welfare facilities for the previous year. The Composite Services Agreement will expire on 31 December 2007.
- (d) Pursuant to the Tenancy Agreement and the Office Tenancy Agreement both entered into by the Company and GPHL on 6th February 2004, GPHL has granted to the Group the right to use certain premises such as warehouses and offices for a term of three and a half years at a fixed annual rent and is subject to the adjustment of standard rent as prescribed from time to time by Guangzhou Real Estate Administration Bureau, plus utilities and other outgoings which are payable based on actual consumption. The agreement will expire on 31st August 2007.
- (e) During the period, the Company had acquired 51% equity interest in GZPYMCL from GPHL for a cash consideration of RMB3,889,000. Pursuant to the Subscription Agreement with the other shareholders of Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd., a subsidiary, additional subscription of RMB44,480,000 was made by the Company and the shareholding has increased to 70.04%.
- (f) An agreement was entered into by the Company and GPHL on 26 March 2004 in relation to purchase and sales transactions in the ordinary course of business. During the period, these mainly represented transactions entered into with Guangzhou Baiyunshan Pharmaceutical Co., Ltd. and its subsidiaries (collectively "other related parties"), out of which sales of finished goods and raw materials amounted to RMB84,139,000 (2003: RMB91,216,000) and purchase of finished goods and raw materials amounted to RMB94,842,000 (2003: RMB15,442,000). The remaining sales of finished goods and raw materials amounted to RMB6,000 (2003: RMB14,590,000) and purchase of finished goods and raw materials amounted to RMB9,607,000 (2003: RMB141,213,000) were entered into with fellow subsidiaries.

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

29 PRINCIPAL SUBSIDIARIES

The following is a list of principal subsidiaries as at 31 December 2004:

Name	% of equity interest held		Registered capital Rmb	Principal activities
	Directly	Indirectly		
Guangzhou First Chinese Medicine Company Limited ²	90.37	6.65	166,000,000	Production of CPM
Guangzhou Chen Li Ji Chinese Medicine Factory ¹	100.00	—	94,000,000	Production of CPM
Guangzhou Qi Xing Pharmaceutical Factory ¹	100.00	—	82,416,741	Investment Holdings
Guangzhou Jing Xiu Tang Pharmaceutical Co., Ltd. ³	88.40	—	86,232,345	Production of CPM
Guangzhou Pan Gao Shou Pharmaceutical Co., Ltd. ³	87.77	—	65,436,232	Production of CPM
Guangzhou Wang Lao Ji Pharmaceutical Co., Ltd. ³	92.48	—	106,378,439	Production of CPM
Guangzhou Xing Qun Pharmaceutical Co., Ltd. ³	88.99	—	77,168,904	Production of CPM
Guangzhou Pharmaceutical Corporation Limited ²	90.09	6.90	222,000,000	Trading of western pharmaceutical products and medical apparatus
Guangzhou Chinese Medicine Corporation ¹	100.00	—	69,700,000	Trading of CPM and Chinese raw medicine
Guangzhou Pharmaceutical Corporation Jianmin Medicine Chain Pharmacies ¹	—	96.99	10,694,000	Wholesaling and retailing of medicine, pharmaceutical and related products
Guangzhou Guo Xin Te Pharmaceutical Miscellaneous Medicine Wholesale Company ¹	—	96.99	3,000,000	Wholesaling of miscellaneous medicine

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

29 PRINCIPAL SUBSIDIARIES (continued)

Name	% of equity interest held		Registered capital Rmb	Principal activities
	Directly	Indirectly		
Guangzhou Jiamin Medicine Pharmaceutical Sales and Marketing Company ¹	—	96.99	500,000	Wholesaling of western patent medicine
Guangzhou Pharmaceutical Import & Export Corporation ¹	100.00	—	3,540,000	Import and export of medicine
Guangzhou Qi Xing Pharmaceutical Co., Ltd. ⁴	—	75.00	100,000,000	Production of CPM
Guangzhou Chinese Medicine Corporation Chinese Medical Drink and Pill Factory ¹	—	100.00	3,113,000	Processing of health care beverages and drinks
Guangzhou Chinese Medicine Corporation Medical Powder and Herb Wholesale Company ¹	—	100.00	534,000	Wholesaling of Chinese raw medicine
Guangzhou Chinese Medicine Corporation Sales and Marketing Company ¹	—	100.00	2,083,000	Wholesaling and retailing of CPM
Guangzhou Chinese Medicine Corporation Cai Zhi Lin Medicine Chain Pharmacies ¹	—	100.00	3,934,000	Retailing of Chinese raw medicine and CPM
Guangzhou Medical Equipment and Chemical Testing Equipment Co., Ltd. ²	—	89.32	11,880,000	Wholesaling and retailing of medical apparatus and chemical testing equipment
Guangzhou Hanfang Contemporary Chinese Medicine Research and Development Co., Ltd. ²	70.04	2.91	127,764,300	Research and development of CPM
Guangzhou Baidi Biological Pharmaceutical Co., Ltd. ²	94.86	—	70,100,000	Research and development of patented biological products
Guangzhou Huanye Medicine Co., Ltd. ²	59.70	—	6,000,000	Production of western medicine
Guangzhou Guo Ying New and Special Medicine Wholesale Company ¹	—	96.99	9,070,000	Wholesaling of medicine and health care products
Guangzhou Pharmaceutical Group Yingbang Marketing Co., Ltd. ¹	51	—	18,407,863	Wholesaling of medicine and health care products
Guangxi Ying Kang Pharmaceutical Co., Ltd. ¹	51	—	31,884,529	Production of CPM

NOTES TO THE ACCOUNTS

(Prepared in accordance with HK GAAP)

29 PRINCIPAL SUBSIDIARIES *(continued)*

The place of operation of the above principal subsidiaries is in the PRC.

Type of legal entities:

- 1 State-owned enterprise
- 2 Limited company
- 3 Joint stock company
- 4 Sino-foreign joint venture

The English names of the above subsidiaries are direct translation of their name in Chinese.

30 ULTIMATE HOLDING COMPANY

The directors regard Guangzhou Pharmaceutical Holdings Limited, a PRC State-owned enterprise under the control and supervision of the Guangzhou Municipal Government, as being the ultimate holding company.

31 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 27 April 2005.